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The Need for a Reappraisal of the Balance Sheet

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Accountants are partial to the "inventory taking" process—and it appears high time to take stock of the basic product of accounting: financial statements. As increasingly wide use is made of financial reports, they have come in for an extensive amount of criticism and even ridicule. Much effort has been, and is being, made by accountants to improve basic financial reports issued for external use and analysis. This effort for improvement is a healthy sign. The purpose of this paper is to stimulate further study and constructive criticism of financial reporting.

The balance sheet will be used as a point of reference. Many professional accountants and users of accounting reports consider this statement largely obsolete and it has been relegated to a position which is secondary to the income statement. Its contents, the valuation thereof, and presentation are today the results of many conflicting influences. It is largely an assortment of residuals—each emanating from a particular objective and sometimes from an obsolete tradition. The balance sheet is no longer consistent with the income statement and it is not even logically related within itself.

The results of some of the conflicting objectives in financial statements are well known; the working capital section is primarily designed for short-term credit analysis; the fixed asset section attempts to preserve historical cost; the intangible section is generally suspect if it is more than a nominal amount; the liabilities are based largely upon a maturity value concept; the capital section is influenced by legalistic ramifications and stockholder-corporation relations. Net income presumably measures the residue of matching expired costs with revenues earned. A closer examination reveals, however, that the cost of goods sold represents the excess of certain costs over those assigned to the inventory; the operating expenses include a conglomerate of operating costs as well as costs not attaching to the cost of goods sold by definition, and other costs arising from varying practices in the valuation of certain assets and liabilities. Despite these conflicts net income (so de-

termined) is related to total assets (so determined), sales to total assets, net income to sales, net income to capital, and so forth; and then these relationships are presented as a group of (mathematically) correct analytical ratios. The information provided by these ratios cannot be considered other than artificial and ambiguous.

The balance sheet falls short in accomplishing most of its traditional and popular functions. It is criticized by those who expect it to reveal net realizable values; it is considered deficient by those interested in debt-paying ability; it fails to provide information about current reproduction cost or current market values; and it ignores price level changes generally.

A Brief Look Backward

How did the balance sheet evolve to such a state? A brief review of its development will give some explanation of the present dilemma. The balance sheet traditionally was designed to reveal the worth of the firm to the few inside owners at a very conservative level. Its early use for the purpose of obtaining credit also had considerable influence in laying its framework. The balance sheet was designed primarily to show debt-paying ability, and as a result great stress was laid on the importance of showing the net cash realizable value of the physical assets. The income statement had minor significance under these circumstances since its ability to show debt-paying power was considered quite limited.

Significant developments in the economic system have since caused major changes in accounting and in accounting statements. The growth of large scale enterprises was accompanied by a tremendous increase in the number of owners—now usually far removed from an intimate knowledge and control of the firm. Management, for the most part, has passed from a few insiders to a new group of professionals. Government has taken an active part in regulation and control, and has extracted a heavy toll in the form of taxes. Financial information about business firms has come to be widely distributed and is now used by many different groups.

The most important effect of these developments was a clear-cut change in emphasis in accounting. Attention turned to income determination and to a search for improved presentation of income data. This was an obvious response to a current and pressing need for significant data by investors, creditors, tax collectors, employees, customers, and a host of others.

The results of directing interest to income determination and presentation have been salutary and are a tribute to the accounting profession. The development and use of accrual concepts (expenses and income) are basic achievements which are now universally adopted except in a few cases where the cash basis accomplishes equivalent results. Deferrals of assets and liabil-

ities are now considered an indispensable part of the proper determination of income and financial position. The concepts of allocation of costs between fiscal periods and the flow of costs now form the core of accounting contributions in the field of cost accounting.

Perhaps the main development resulting from the increased emphasis on income has been the emergence of the "matching" concept. This well known concept of matching cost and revenue, along with the going-concern assumption, epitomizes the basic methodology of income determination in accounting.

The developments, aimed primarily at income determination, were imposed upon an existing system of accounting and had, of course, significant effects on the balance sheet. The very nature of the two financial statements did not permit otherwise. Some areas of the balance sheet were vitally affected, while others were influenced to a lesser extent. This set the stage for the decline of the balance sheet as a major financial statement.

Another important and closely related factor that has contributed to a weakening of the balance sheet has been the influence of income taxes in accounting. This relatively new phenomenon has been injected into the existing structure. Many procedures and underlying objectives, designed to minimize the tax burden of the taxpayer, have evolved as generally accepted procedures. The tax angle is now permitted to play a major role in many cases of expense and income measurement and timing. Assets have come to be regarded, in many instances, as "outlays which are not yet deductible."

Undoubtedly the outstanding factor which has caused financial statements—especially the balance sheet—to lose their validity and usefulness is one which may be considered outside the realm of accounting. This factor is the effect of price level changes on accounting data. Price level fluctuations are regarded by many as the most serious problem facing financial reporting today. Since no widely acceptable solution has been advanced, we in accounting have utilized a patchwork approach. In the area of inventories, for example, the "lifo" method was adopted to offset, in part at least, the effect of rising prices. Tax advantage provided a further incentive for using this method. Paradoxically, the inventory for balance sheet purposes under lifo is not adjusted for price level changes; in fact, it consists of the "old" cost, which is much below the current period's cost. We have also witnessed the wholesale adoption of accelerated depreciation, often without regard to applicability, in order to reduce taxes and counter the effect of inflation on the income statement.

It should be pointed out that the typical business firm has experienced many other important changes which should be reflected in its financial statements. A greater proportion of a firm's outlays is currently made for non-

physical rights, benefits, or advantages. This characteristic is related to an increase in the importance of the distribution function as opposed to the traditional production function. In other words, the cost of the physical product represents a diminishing portion of the total costs necessary to realize revenue from a product. Traditional standards of balance sheet contents and valuation are still largely influenced, however, by the priority in importance granted to physical or tangible property.

The Need for a Reappraisal

If the fact that the balance sheet has lost its effectiveness as a financial statement is accepted, a reappraisal of accounting data and the method of presentation of accounting data seems warranted. Perhaps the point has been reached in the development of accounting where the determination of income has assumed such significance that the balance sheet need no longer be considered a major component in financial reporting. Morton Backer has stated this viewpoint as follows, "Deficiencies currently inherent in the balance sheet may well result in its ultimate elimination as a primary accounting exhibit, at least in its present form."[1] Others[2] have expressed similar sentiments.

My opinion is that accounting will lose its effectiveness as a vital function if the distorted emphasis in income determination is carried to the conclusion implied above. Accounting will achieve maximum utility only if *both* focal points of emphasis—income determination and financial position—are given equal weight. The statement is sometimes heard that to make the income statement "right" we must accept an incorrect balance sheet. This attitude appears to be highly expedient and abortive.

A more positive approach is essential. There is a need for co-ordinated effort aimed at improving the whole of accounting concepts, standards, and procedures. Financial reporting will suffer as long as one area lags. The inherent relationship of income and financial position requires that progress in these two areas of reporting move forward abreast of each other. Over-all utility demands consistency between these two components of financial reporting.

Some Suggested Solutions

The underlying objective in financial reporting needs to be examined. At present there are two points of view on the method in reporting. One ap-

[1] Morton Backer, "Measurement of Business Income," *Handbook of Modern Accounting Theory*, Ed. by Morton Backer (Englewood Cliffs, N. J., Prentice-Hall, Inc., 1955), p. 229.

[2] For example, see George O. May, "The Future of the Balance Sheet," *The Journal of Accountancy*, Vol. 84 (August, 1947), pp. 98–101.

proach suggests the issuance of several single purpose statements, and the other, which enjoys general acceptance, advocates using one set of general purpose reports. General purpose statements are assumed to serve a large number of users having various needs and desires. The implication seems to be that these multiple needs are all served equally well within one set of financial reports. Is it not time to reconsider some of these underlying assumptions? Should we not admit that it is impossible for one set of financial statements to accomplish these multiple objectives? Would it be desirable to issue, instead, a group of individual statements, each directed to a particular type of user? Although special-purpose statements would certainly carry some advantages, considerable opposition exists to this proposal—much of it justified.

A possible alternative to these two approaches is to identify a primary objective in financial reports. Financial reporting should be directed to the investors and prospective investors. Improvements in income determination have been made primarily to provide the owners with a better gauge of the success of the firm and to afford an indication of expected future earnings. The basic objective should be expanded to restore meaning and coherence to the balance sheet also. Orienting statements primarily toward providing data to proprietors should not at all preclude their use by other groups and interests. The short-term credit grantor, for example, if he were cognizant of the underlying objective of the statements he is analyzing, could make specialized tests and analyses designed for his particular use. The overriding advantage would be that this special user, or any other, would have confidence that one general objective has been consistently followed throughout the statements. Analysis by any particular user would thus be greatly facilitated.

If one basic objective is assumed in financial reporting, the matching concept can be comprehensively applied, not only to further refine income, but also to establish coherence between the concepts of real and nominal accounts. This approach would support the viewing of all outlays generally as resources committed to the production of income. That portion of resources consumed in the production of income, including those consumed when no income is produced, would constitute expired costs chargeable against revenue. Realized revenue would result in the recognition of resources of commensurate amount for balance sheet purposes. The matching concept would thus not only be applied in income determination but would also influence asset and liability determination in a comprehensive manner.

Perhaps the essence of this approach is that it permits the relating of income to resources and the obtaining of valid and useful ratios. It is generally agreed that the most effective measure of success of a firm is not the amount

of earnings in a given period, but rather the rate of earnings to the investment in the firm. This goal highlights the need to synchronize our definitions of both income and the investment.

The influence of tax laws and regulations on accounting concepts and procedures is today a serious issue that has reached major proportions. As a result of this influence, revenues are minimized or deferred, and expenditures are charged to income as soon as the law will allow regardless of other considerations. It is rather unfortunate that any accounting procedure which is not sanctioned for tax purposes must almost invariably take a defensive position. There is no need to labor the point that taxable income is not an objective gauge of a firm's success for general purposes. Also, this income is clearly no longer consistent with the remaining assets. The real danger is that accounting concepts and procedures will become subordinated to legal decrees and governmental regulations. Income defined for a specific purpose should not become a measure for the general case.

It should be reaffirmed that accounting income, as well as assets and liabilities, should be oriented toward a more basic objective. The adoption of such an objective in financial reporting would not limit the use of accounting data for tax purposes. Special analyses and schedules must be prepared under any circumstances. Accountants might be able to argue even more effectively the need to make tax regulations more closely coincide with accepted accounting, if the basic objective approach were applied. There exists a critical need for accountants, practitioners and nonpractitioners, to boldly support procedures that have general usefulness and that will benefit the long-range development of the accounting profession.

Distortions in financial reporting have also evolved in the area of marketing and other intangible outlays. The American Institute of CPA's has done a commendable job in suggesting reasonable accounting procedures for the traditional intangible assets, such as, organization costs, franchises, and purchased goodwill. Even in this area, however, accounting practice has tended toward conservatism and the debt-paying-ability concept. Analysis by creditors and others has frequently followed the well known approach of ignoring, *per se,* intangible outlays on the balance sheet. The fact that the results of such analysis are illogical and misleading is presumably offset by the contention that these results are conservative and traditional.

Such thinking, colored and strengthened by the effects of high tax rates and price level increases, has undoubtedly influenced the accounting for other intangible outlays such as research and development costs, sales promotion costs, market research, motivational surveys, and major advertising campaigns. These expenditures are substantial in most medium and large concerns. Few would contend that major disbursements for research and de-

velopment or market research are intended to, or actually do, benefit the firm during the current period alone. Only in very rare instances, however, are serious efforts made to properly allocate such expenditures to the periods benefited. The concept of matching costs and revenue is overlooked in favor of conservatism and tax pressures. Within the same set of financial statements great fanfare is made about the full implementation of the matching concept in the area of accruals and deferrals; it would be considered a major discrepancy, for example, to condone the expensing of a moderately priced motor vehicle. The reasons given for such inconsistencies—i.e., that these intangible expenditures are too difficult to allocate, or that these are recurring outlays—are not completely convincing. Estimations are not alien to accounting and the recurring nature of certain costs, for example, inventory costs or equipment purchases, is not justification for the use of periodic charge-offs.

That marketing costs are now of major proportion is a basic proposition in American business. The trend clearly indicates that production costs will account for an even smaller portion of total costs in the future. Yet accountants, for the most part, have not altered their basic approach of evaluating assets from a (tangible) production point of view. In short we have one set of standards for the determination of assets on the basis of product *cost* and a different set of standards for outlays benefiting the *demand* for the product.

Perhaps the thorniest of all problems in financial reporting is that of price level changes. In this area I can offer only some general observations. Regardless of the solution finally adopted to alleviate the distortion caused by price level changes, the basic accounting reports must first be properly related. In other words, the application of various price level remedies on a piecemeal basis to our currently existing accounting structure will only further the confusion and distortion. A well known example, previously cited, is the use of lifo inventory as a partial solution to price level increases. Few would quarrel with the objective of lifo on income determination; however, there is doubt whether this method adequately deals with the real issue of the effects of inflation on financial statements in a comprehensive manner.

Some have suggested, for example, that a satisfactory approach to price level changes would be to adopt lifo procedure for inventory and something akin to lifo for fixed assets. Most other expenditures, under this approach, would be charged to income as period costs. The income which would thus emerge would presumably be an approximate measure of the "real" income of the firm.

The effects of price level changes are basic and permeate the whole structure of financial statements. Partial adjustments, where presumably the greatest distortion exists, still leave income inadequately adjusted and de-

stroy the inherent relationship between the income statement and the balance sheet. The fundamental goal should be to restore harmony between the two financial statements. Price level adjustments would thus be applied to accounting statements in a comprehensive and integrated manner. Perhaps a precedent has already been established in the approach proposed by the AICPA and others to use supplementary statements completely adjusted for price level changes. This approach, although only a preliminary step, provides a means of clearly identifying the results of price level fluctuations.

In summary, financial reporting needs fresh approaches and new solutions. Bold suggestions in harmony with the changing nature of business should be advanced, analyzed, and criticized so that the dynamic and utilitarian characteristics of accounting will be restored and maintained.

Alternative Uses for Resources Displaced by Agricultural Adjustments[1]

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AGRICULTURAL ADJUSTMENTS will be made during the next two decades. These will take the form of reducing the inputs of land and human resources, and perhaps even inputs of material capital, if a balance is to be restored between the production of farm commodities and their disappearance. Although there are productive uses for many of the resources that are (or will soon become) redundant to agriculture, human and land resources are not being transferred at the required rate. This paper points out the uses that the surplus resources might be put to and suggests how the transfers can be made at the least social cost.

Demand for Resources Redundant to Agriculture

If we assume no alternative gainful employments for the human resources underemployed in agriculture, what does this mean? Demand for inputs is derived either immediately or ultimately from the demand for goods and services for consumption. Are there neither private nor public goods and services for which we would be willing to pay enough to generate incomes higher than those now being received by underemployed workers?

First, consider the private sector. Are there no products consumers want? The 2,849,000 farm-operator families with 1954 net cash income of less than $2,500[2] undoubtedly have unmet needs; many do not enjoy adequate diets, housing, clothing, health protection, youth education, and goods symbolizing the American standard of living. Economists say these are needs, not demands! But why can a country with surplus labor and land and a magnificent industrial machine running at less than full capacity not use unutilized and underutilized resources to produce what low-income families need? Needy families do not have the purchasing power, although many of the unem-

[1] Published with the approval of the Director, Arkansas Agricultural Experiment Station. The author wishes to acknowledge suggestions and criticisms from Donald E. Farris, Henry J. Meenen and Calvin R. Berry.

[2] Data from the 1954 *Census of Agriculture* (income from all sources).

ployed and underemployed are anxious to be employed gainfully. Can an economic system regarded as reverently as ours not accommodate those needing income and those needing goods and services?

Great as are some needs for private goods and services, society's needs for public services are even more acute. Russia's satellite launchings brought awareness of educational shortcomings. Hospital and health facilities and services leave much to be desired. Investment in streets and highways has not kept up with utilization. Clawson wrote of "The Crisis in Outdoor Recreation" that the outdoor recreational services demanded even in the near future may not be available.[3] Water supplies, air safety, sanitary facilities, and stream and air pollution are other activities showing effects of too little public investment. More research funds—especially for basic research—would be good investments in future productivity.

Among other vitally needed public services are those that make up defense posture. The leaders most closely associated with defense problems during the last ten years look upon defense needs as great and immediate. It may be a curious paradox of the twentieth century that a large nation with the highest income per capita could not "afford" to spend enough to insure security against military attack.

A final need seems worthy of mention. For many decades visitors from afar have taken delight in pointing out an alleged shortcoming of our society—inattention to nearly all things aesthetic: art, music, drama, and literature. Using aesthetic criteria to evaluate the greatness of civilizations is not new.

> A conspicuous case presents itself in the domain of Art . . . the concept of unique artistic styles that can be comprehended by direct aesthetic intuition is an accepted commonplace. There is nothing new or startling or paradoxical in the proposition that every civilization creates an individual artistic style of its own; and, if we are attempting to ascertain the limits of any given civilization in any dimension, either spatial or temporal, we find . . . that the aesthetic test is the surest as well as the subtlest.[4]

No earlier civilization achieved the economic productivity of the American branch of Western civilization. Yet each managed considerable material support to aesthetically gifted individuals in plying their arts or crafts for the benefit of all. Can we really not "afford" museums of art, natural, social and economic history; centers for the production and creation of drama and music; centers for literature and crafts; aesthetic instruction in all our schools?

[3] Reprints from *American Forests*, March 1959 and April 1959.

[4] Arnold J. Toynbee, *A Study of History* (London, Oxford University Press, 1955), Vol. iii: pp. 378–379.

Alfred North Whitehead's admonitions to England are equally valid for the United States:

. . . You cannot, without loss, ignore in the life of the spirit so great a factor as art. Our aesthetic emotions provide us with vivid apprehensions of value . . . The endeavour to develop a bare intellect is bound to issue in a large crop of failure. This is just what we have done in our . . . schools. . . . History shows us that an efflorescence of art is the first activity of nations on the road to civilization. Yet . . . we practically shut out art from the masses of the population . . . art in simple popular forms is just what we can give to the nation without undue strain on our resources . . . It would require . . . no very great effort to produce a population with some love of music, some enjoyment of drama, and some joy in beauty of form and colour. We could also provide means for the satisfaction of these emotions in the general life of the population . . . when your population widely appreciates what art can give . . . do you not think that your prophets and your clergy and your statesmen will be in a stronger position when they speak to the population of the love of God, of the inexorableness of duty, and of the call of patriotism? . . . unless we can meet the new age with new methods, to sustain for our populations the life of the spirit, sooner or later, amid some savage outbreak of defeated longings, the fate of Russia will be the fate of England. Historians will write as her epitaph that her fall issued from the spiritual blindness of her governing classes, from their dull materialism, and from their Pharisaic attachment to petty formulae of statesmanship.[5]

Other evidence points to alternative employments for underemployed resources. Great technological change has brought large increases in productivity and income in the U.S. economy, and equally drastic change in the types of workers required. Table 1 shows U.S. Department of Labor estimates of relative changes in requirements for workers in two decades—1955 to 1965, and 1960 to 1970. More and more education and training are required of workers and the increases are likely to continue. These needs are illustrated by average years of schooling completed by each type of worker in 1959. The effect of education on unemployment can be seen in the percentages of workers in different educational categories who were unemployed in 1959: 8.6 per cent of those having less than a high school education; 4.8 per cent of high school graduates; and only 2.5 per cent of those having some college education.[6]

The Department of Labor summarizes potential productivity as follows: "Our manpower potential is great enough, with an improving technology, to increase the production of goods and services by about 50% from 1960 to 1970."[7] Technological advances open the way for further large increases in

[5] Alfred North Whitehead, *The Aims of Education* (New York, Mentor Books, 1956), pp. 51–52.

[6] *Manpower—Challenge of the 1960's*, U.S. Dept. of Labor, 1960.

[7] *Ibid.*

TABLE 1

Estimated Percentage Changes in Workers Required, 1955–1965 and 1960–1970 by Type of Worker, and Average Schooling of Each Type in 1959

Type of Worker	*Changes Required* 1955 to 1965	*Changes Required* 1960 to 1970	*Average Schooling* 1959
	(per cent)		*(years)*
Professional and technical	+37	+42	16.2
Proprietors and managers	+22	+23	12.4
Clerical and sales	+27	+25	12.5
Skilled craftsmen	+24	+23	11.0
Semiskilled operatives	+22	+18	9.9
Service workers	+13	+24	9.7
Laborers	− 4	0	8.6
Farmers and farm workers	−15	−17	8.6

Source: *Our Manpower Future, 1955–65*, U.S. Department of Labor (1957); *Manpower—Challenge of the 1960's*, U.S. Department of Labor (1960).

national income, if individuals no longer needed on farms can be used to produce needed goods and services.

The final evidence comes from the structure of demand for manpower. Severe shortages exist in many categories of workers needed. Even surplus-labor states have localities with some industrial activity, and many of these localities need skilled and trained people. For example, Baldwin Piano in Fayetteville has not been able to employ enough electronics technicians or assemblers of electric organs.

Each Sunday the *New York Times* contains pages of dramatic appeals for highly trained and experienced people. Most in demand are scientists and engineers (the more analytical the better); their common characteristic is a very high level of training and experience.

Some of the underemployed and unemployed could be better employed if they were more qualified to work. This number might be large if a way could be found of financing badly needed public investment. The additional purchasing power that this employment would make available to hitherto underemployed or unemployed would generate more employment. The direct and indirect effects of fuller employment would not be small, particularly on the rate of growth. Galbraith put it thus:

> . . . Our peacetime concern for production . . . is selective and traditional. As a result, at any given time both our total output and its rate of increase are only a small part of what it might be, perhaps indeed only a minor fraction.[8]

[8] John Kenneth Galbraith, *The Affluent Society* (Boston, Houghton Mifflin Co., 1958), p. 132.

Reasons for the Failure To Make Optimum Adjustments

So far, the conclusion is that goods and services could be produced and consumed that would increase welfare considerably. The redundancy of some human resources in agriculture has not been shown. Production rate for farm commodities exceeds disappearance rate by 5 to 10 per cent. The 1954 *Census of Agriculture* shows that 56 per cent (2,680,000 farms) of all farms produced 9 per cent of market sales. If the other 44 per cent (about 2.1 million) produce as they did in 1954, the supply of farm products would be adequate. If the nonhuman resources of the redundant 56 per cent were available to the 44 per cent, farm output would increase above existing level of output because commercial farmers would use resources now on small farms more productively than small farmers are now using them.[9] Bringing farm production into reasonable balance with disappearance will require not only the transfer out of agriculture of many farm families but millions of acres of land.[10] Possible uses for this land will be discussed later.

Why has surplus farm population not transferred into nonfarm occupations and helped achieve the large increases in national income that are possible? Why has a large supply of labor remained in agriculture, continuing to divide into small pieces a farm income pie kept small by overcapacity in agriculture? Overcapacity persists even when farm income falls to one-half the level of nonfarm income.

Why has not more farm population gone into more remunerative industrial employment? They were not (and are not) prepared to make the change because the investment in them as human resources was too small to qualify them for the more skilled types of employment available. Fear of unemployment after moving to an industrial area may bar some transfers, particularly in the case of individuals with less education, training, and experience. Investment in the human agent includes expenditures on education and training, as well as on health and welfare. Table 1 shows that farmers and farm workers averaged the same schooling as unskilled laborers. Table 2 shows state and local government expenditures per capita for human and community capital in 1957. Expenditures on education in heavily rural states (in the South and elsewhere) are low and usually below the U.S. average. The same is generally true of expenditures on public welfare, and on health and hospitals. Even if investment in human resources is optimum in industrial states, the level of investment in agricultural states is far below optimum.

[9] For some labor-intensive crops the labor of some small farmers may still be required. Many commercial farmers, however, are not fully employed.

[10] Transfer of excessive labor from farming would probably automatically retire some land but not enough to bring production and consumption into balance.

TABLE 2

Per Capita Amounts of General Expenditure of State and Local Governments, by Function and State, 1957

State	Per Capita Amounts of Expenditure for Selected Functions									
	*All General Expenditure**	*State Institutions of Higher Education*	*Local Schools*	*Highways*	*Public Welfare*	*Health and Hospitals*	*Police and Fire Protection*	*Natural Resources*	*Sewers, Sewage Disposal and Other Sanitation*	*Utility Expenditure*
						(dollars)				
Kentucky	154	8	42	34	17	10	7	6	6	10
Tennessee	164	8	49	35	15	15	7	5	5	63
Arkansas	148	11	40	34	19	10	5	5	2	10
Louisiana	277	15	67	50	46	16	11	11	8	17
Mississippi	152	8	40	39	18	11	5	6	2	8
Alabama	178	9	45	43	23	11	7	4	4	11
Florida	236	10	59	49	17	19	14	9	13	25
Georgia	186	8	58	31	21	19	9	5	5	14
South Carolina	155	8	57	25	13	14	6	6	4	10
North Carolina	162	10	54	34	12	13	7	4	5	12
Virginia	187	10	55	48	7	14	9	4	10	9
West Virginia	155	11	51	30	18	9	6	4	3	3
Connecticut	325	8	82	107	18	23	19	3	9	8
New York	296	4	84	39	22	32	22	7	13	33
New Jersey	237	6	72	39	10	19	22	2	13	7
Pennsylvania	196	5	63	33	14	15	12	2	11	8
Delaware	243	14	76	53	13	17	10	4	7	13
District of Columbia	226	....	47	19	14	36	28	..	15	13
Maryland	240	10	67	55	10	20	15	3	10	11
Ohio	223	9	71	46	18	15	12	3	13	18
Indiana	207	22	66	37	12	16	11	4	9	16
Michigan	263	25	79	47	16	24	15	4	9	16
Illinois	228	10	68	44	16	18	14	3	11	24

Rhode Island	209	8	50	36	22	18	16	3	8	6
Massachusetts	292	3	65	61	31	31	23	2	8	27
Vermont	249	17	64	75	21	15	9	10	2	14
New Hampshire	243	12	56	74	16	23	12	8	5	8
Maine	210	9	53	58	19	13	12	8	3	8
Missouri	197	6	59	38	30	14	11	3	5	15
Iowa	236	18	72	65	21	14	8	5	6	15
Wisconsin	243	12	64	54	18	19	15	6	15	10
Minnesota	257	19	81	53	21	23	9	7	6	14
North Dakota	259	19	61	74	16	14	6	11	5	11
South Dakota	245	18	65	79	16	8	6	11	3	13
Nebraska	202	15	61	51	14	14	8	7	4	92
Kansas	273	17	73	82	22	17	9	7	9	35
Oklahoma	249	20	67	54	46	12	9	8	6	18
Texas	204	11	69	44	17	11	10	4	7	23
Colorado	281	24	76	54	45	17	12	8	7	29
New Mexico	278	24	82	67	20	17	8	14	8	17
Arizona	273	22	88	50	18	12	11	22	7	36
Utah	232	23	80	41	18	13	9	9	8	20
California	321	19	98	46	29	24	21	15	8	29
Nevada	368	18	75	89	15	31	22	30	17	14
Oregon	272	19	84	58	19	16	13	13	4	15
Washington	286	19	82	57	50	23	13	10	7	61
Idaho	233	14	66	60	17	16	9	18	4	9
Montana	282	20	79	79	21	13	9	15	5	8
Wyoming	328	22	94	93	17	25	10	24	5	11
United States	237	12	70	46	20	19	14	6	9	21

* Other general expenditures included in this amount but not listed here are: general control, interest on general debt, liquor stores expenditure, and insurance trust expenditures.

Source: *1957 Census of Governments (Advanced Releases), Number 8: State and Local Government Finances in 1957* (U.S. Department of Commerce, Bureau of the Census, February, 1959), pp. 20, 21 and 23.

One effect of low levels of human capital formation is shown by the percentages in Table 3 of Selective Service registrants who failed to pass the Armed Forces Qualification Test. Since success on this test undoubtedly correlates with ability to succeed in civilian activities, these percentages help explain low incomes in states having large rural populations.

TABLE 3

Percentages of Selective Service Registrants Examined Who Failed To Pass the Armed Forces Qualification Test, 1951–1958, by States

State	*1951**	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*
				(per cent)				
Kentucky	36	30	27	21	29	30	29	33
Tennessee	34	34	28	22	24	27	29	31
Arkansas	41	36	33	22	26	33	32	38
Louisiana	54	42	38	23	38	40	39	44
Mississippi	49	49	48	36	50	45	50	46
Alabama	47	51	42	35	51	41	43	43
Florida	31	23	30	24	34	34	31	34
Georgia	48	37	49	38	37	35	37	42
South Carolina	58	55	46	41	39	41	50	58
North Carolina	31	30	31	59	53	40	32	35
Virginia	52	33	26	21	34	29	32	32
West Virginia	25	16	14	17	18	23	23	26
Connecticut	14	8	7	6	6	11	12	18
New York	15	10	10	10	11	16	15	21
New Jersey	10	8	10	9	13	13	19	20
Pennsylvania	12	7	7	6	6	8	10	13
Delaware	26	15	12	14	12	10	16	22
Dist. of Columbia	22	14	14	20	22	23	22	27
Maryland	23	11	13	14	16	18	18	24
Ohio	14	9	10	7	8	8	11	11
Indiana	13	7	8	6	9	10	12	10
Michigan	16	7	7	7	9	10	11	12
Illinois	11	7	10	15	15	16	16	16
Rhode Island	12	7	6	8	6	7	11	17
Massachusetts	13	6	6	6	7	8	9	12
Vermont	16	9	4	7	7	9	10	13
New Hampshire	13	6	5	5	7	5	8	8
Maine	22	10	7	7	9	10	11	14
Missouri	15	8	9	11	11	10	12	14
Iowa	7	2	3	3	2	4	4	4
Wisconsin	7	4	4	3	3	5	7	8
Minnesota	6	3	2	2	2	4	4	6
North Dakota	8	4	4	4	4	4	7	8
South Dakota	6	4	3	2	5	6	5	9
Nebraska	6	3	3	4	7	5	6	7
Kansas	9	6	4	4	4	6	4	6
Oklahoma	20	16	10	10	11	9	10	10

TABLE 3—(Continued)

Percentages of Selective Service Registrants Examined Who Failed To Pass the Armed Forces Qualification Test, 1951–1958, by States

State	*1951**	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1958*
				(per cent)				
Texas	32	21	20	19	24	25	23	20
Colorado	11	8	7	6	5	8	8	9
New Mexico	26	22	16	14	17	22	21	19
Arizona	9	27	20	12	20	21	21	20
Utah	5	4	3	3	3	5	6	9
California	19	11	8	11	17	21	16	15
Nevada	11	8	11	17	12	14	11	15
Oregon	5	4	3	2	2	4	5	4
Washington	5	4	3	5	3	4	5	5
Idaho	6	4	3	4	7	3	5	5
Montana	9	5	3	3	2	2	4	4
Wyoming	10	6	4	3	7	5	5	6
United States†	22	14	17	16	18	18	19	21

* July 1951 through December 1951.
† Continental United States.
Source: reprints from *Health of the Army:* vol. 7, no. 4: 5 (April 1952); vol. 8, no. 4: 7 (April 1953); vol. 9, no. 2: 4 (February 1954); vol. 10, no. 2: 5 (February 1955); vol. 11, no. 2: 5 (February 1956); vol. 12, no. 4: 7 (April 1957); vol. 13, no. 1: 7 (January 1958); vol. 14, no. 2: 5 (February 1959).

Because of inadequate human capital formation, many low-income individuals have not moved where better economic opportunities are. Many low-income people are not trained or experienced enough to obtain good-paying jobs elsewhere. Even though more training and experience is required each decade, are there not economic activities to use workers with less training or less experience, or even less productivity, as long as labor costs per unit of output reflect differentials in productivity? Why have low-skill, low-wage economic activities not moved into low-income communities to absorb the underemployed and unemployed?

There are several answers to this question. First, much of the economic activity in the South is low-wage, except for some resource-oriented activities. Most of the textile, apparel, furniture, leather, and tobacco manufacturing is in the South already.

Second, if there were a labor shortage in the United States, marginal claimants for labor would take what is available in low-income communities. There is no shortage, with present public policies. The number of unemployed and underemployed individuals proves no shortage. A labor surplus means that even marginal employers have many choices of locations with adequate supplies of labor. A locator of industry—with a choice between a southern city where much of the labor force has had 8 years of schooling or less and no vocational training, and a city whose labor force is composed of

high school graduates with vocational training—makes the rational decision. Waiting for an economic activity to take advantage of labor essentially untrained by modern standards is not very practical.

Third, suppose a community has a labor force that passes muster. Few communities in underdeveloped areas have the key personnel (management, management staff, supervisors and skilled workers) for a modern plant. These personnel would have to be moved into the community, and they are the indispensables whose employment alternatives are numerous and attractive. Few families are willing to reside in an unstimulating and unattractive community. Table 2 reveals that expenditure per capita on community services—highways, health and hospitals, police and fire protection, natural resources, sanitary facilities and utilities—are also below average in low-income states. Few communities needing additional economic activity are likely to seem attractive to key personnel.

How the Needed Adjustments Can Be Facilitated

Some recommendations for facilitating transfers of resources now in agriculture are obvious. To prevent perpetuation of low-income areas, greater investments must be made in youth. Institutions for formation of human capital among adults of low-income areas need to be developed and financed adequately. This calls for greater public expenditure and for enlargement of economic activity in the public sector, and will necessitate changes in public attitudes. Why has our system not achieved good balance between material and human capital?

> . . . Investment in material capital is distributed to the various claimant industries by the market . . . But while this flow operates as between different material claimants on investment funds, it operates only with manifest uncertainty and inefficiency as between material and personal capital. Nearly all the investment in individuals is in the public domain. And virtually all of it is outside the market system. It is the state which, through the colleges and universities, makes the largest investment in individuals. And where, as in the case of private colleges and universities, the state is not directly involved, the amount of the investment is not directly related to the eventual pay-out in production . . . [Earnings] in refineries being higher than in textile mills, the refineries will draw investment funds. But engineers to design the refineries may be even more important—in effect yield a higher return. And the highest return of all may come from the scientist who makes a marked improvement in the refining process. These are not imaginative possibilities but common probabilities. Yet the high return to scientific and technical training does not cause the funds to move from material capital to such investment. There is no likely flow from the building of the refineries to the education of the scientists. Here, at the most critical point in the vaunted process of investment resource allocation, is an impediment of towering impor-

tance . . . Investment in individuals is in the public domain; this investment has become increasingly essential with the advance of science and technology; and there is no machinery for automatically allocating resources as between material and human investment . . . there is active discrimination against [all] the investment in the public domain and hence in any part of it. The investment in the refinery is an unmitigated good. It adds to our stock of wealth . . . But the training of the scientists and engineers who will run the refinery, improve its economic efficiency, and possibly in the end replace it with something better is not a categorical good. The money so invested is not regarded with approval. On the contrary, it is widely regarded as a burden . . . So incredible is the provision for such investment that a considerable part of it will have to be begged. Even the prestige of the word investment itself is not regularly accorded to these outlays . . .

But so long as free choice remains, such investment must remain largely a public function. The individual, since he is only at the beginning of earning power, cannot himself make any appreciable part of the investment.[11]

If Galbraith held such strong feelings on the inadequacy of human capital formation in the United States as a whole, how much more inadequate it must be in low-income areas.

Rational allocations of resources to public and private sectors demand that expenditures for human capital be recognized as investments. This means abandoning timeworn consumption criteria and applying investment criteria, not only to investments in human capital but to community capital that increases community potential for economic activity. The nation's willingness to accept a rate of growth that makes many workers redundant intensifies competition among communities in obtaining economic activity. Large public investments lower a private firm's production costs in that community; where will end this bitter competition among communities not to have more than their share of unemployed, underemployed, and low-income workers?

Making optimum investments in humans and communities will not require as much sacrifice as defenders of the conventional wisdom argue. Low-income states lag behind more affluent states in investment in humans and communities. Yet the discrepancy is not great. The private goods and services to be given up would not be very significant in the real income of people in low-income states. The real social cost may not be large at all, and may even approach zero.

Table 4 shows that low-income states are low in their reliance on property taxes. While seven states raised over $100 per capita in property taxes, ten of twelve southern states raised less than $40 per capita, and six $30 or less. Except Louisiana and Florida, southern states were low in revenue from

[11] Galbraith, *op. cit.*, pp. 272–275.

charges for services performed. Whether level of services was low or chargeable services came out of general revenue is not clear.

Another dimension of the sacrifice required is shown by comparing the amount of money spent on certain consumer items with the amount spent on education. For example, in 1958 each person in the United States spent an estimated average of $238 on distilled spirits, beer, cigarettes, and gasoline.[12] The per capita expenditure on education was only $81 in 1957.

TABLE 4

Per Capita General Revenue of State and Local Governments, by Source and State, 1957

	Per Capita Amounts of				
State	*All General Revenue*	*Revenue from Federal Government*	*State and Local Property Taxes*	*State and Local Nonproperty Taxes*	*Charges and Miscellaneous General Revenue*
			(dollars)		
Kentucky	151	22	39	68	22
Tennessee	166	24	35	84	24
Arkansas	151	28	27	74	22
Louisiana	260	38	36	127	58
Mississippi	160	27	30	78	24
Alabama	162	32	20	81	28
Florida	220	21	57	102	39
Georgia	180	26	35	89	30
South Carolina	149	20	24	80	26
North Carolina	163	26	30	82	24
Virginia	179	17	42	89	30
West Virginia	151	19	28	84	19
Connecticut	247	13	103	102	28
New York	282	16	109	121	37
New Jersey	214	10	111	63	30
Pennsylvania	197	13	53	108	23
Delaware	207	19	32	103	53
District of Columbia	238	43	64	110	20
Maryland	207	18	66	92	31
Ohio	200	16	74	79	31
Indiana	184	13	78	64	30
Michigan	235	19	84	98	35
Illinois	218	15	93	86	24
Rhode Island	192	24	77	75	17
Massachusetts	252	18	122	89	24
Vermont	229	30	81	96	22
New Hampshire	196	18	96	56	26

[12] Estimates were derived by applying Arkansas unit prices to per capita production computed from figures given in *The World Almanac* (1960), pp. 689, 694, 697.

TABLE 4—(Continued)

Per Capital General Revenue of State and Local Governments, by Source and State, 1957

State	All General Revenue	Revenue from Federal Government	State and Local Property Taxes	State and Local Nonproperty Taxes	Charges and Miscellaneous General Revenue
	Per Capita Amounts of				
			(dollars)		
Maine	200	23	80	75	22
Missouri	182	30	58	73	21
Iowa	229	22	86	90	31
Wisconsin	230	16	96	89	29
Minnesota	243	24	93	87	39
North Dakota	259	32	88	79	60
South Dakota	242	40	97	68	37
Nebraska	196	24	99	42	31
Kansas	236	28	102	74	32
Oklahoma	233	41	47	107	39
Texas	199	25	63	74	37
Colorado	271	40	96	93	43
New Mexico	296	67	36	121	72
Arizona	244	31	79	91	43
Utah	229	33	71	92	33
California	314	34	112	126	43
Nevada	358	62	83	146	66
Oregon	278	39	85	115	38
Washington	265	30	56	132	47
Idaho	227	36	78	77	36
Montana	276	49	110	78	39
Wyoming	342	85	99	93	65
United States*	224	23	75	94	32

* Continental United States.
Source: *1957 Census of Governments (Advanced Releases), Number 8, State and Local Government Finances in 1957*, U.S. Department of Commerce, Bureau of the Census, February 1959, p. 16.

Marginal Social Cost of More Human and Community Capital

Accepted doctrines of public finance are based on full employment. When all productive resources are being used fully, increasing public spending requires a diversion of resources from the private to the public sector, leaving a smaller volume of private goods and services for consumers and investors. With unemployed resources, opportunity costs of more public services are less than under full employment. That there are unemployed and underemployed workers is not open to question, and if the steel and automobile industries are samples, there is underutilized industrial capacity.

In 1959 65.6 million workers produced a GNP of $479.5 billion, while an average of 3.8 million were unemployed.[13] Agricultural economists agree that there are 3 million underemployed farm families—20 per cent with a second member of the family seeking work. Thus, 3.6 million underemployed workers would be available. If 1.8 million unemployed can be employed without intolerable inflationary pressure, an employment increase of 5.4 million (8.2 per cent) is possible. With an increase of 8.2 per cent, GNP would rise to $518.8 billion, an increase of $39.3 billion. If the same percentage of GNP was available for government expenditure, this would make $105.3 billion, an increase of $8 billion with the same tax rate. Taking the U.S. population for January 1960 as 179.2 million, public expenditure could be increased $45 per capita. This increase would bring human capital formation much nearer optimum, and would not be as much as the estimate of expenditure for distilled spirits.

Becoming serious enough in wanting a better defense posture and in offering the population more opportunity for aesthetic satisfaction to increase taxes to 22 per cent (as opposed to 20.3 per cent) of GNP would make an additional $8.8 billion ($49 per capita) available for defense and aesthetics. Even after allocating more to the public sector, more income would be available for private goods and services than before. In 1957, $382.7 billion of GNP was for personal consumption and gross private domestic investment; out of a larger GNP of $518.8 billion, approximately $404.7 billion would be available for these purposes—an increase of 5.7 per cent.

There is one more way to estimate marginal social cost. If an underemployed farmer with $1200 per year in net income could be trained to produce $6000 worth of services for an income of $6000, a first approximation to marginal social cost of these additional services would be $4800. If the $1200 came from $1800 in farm commodities, with annual costs of storing and owning $1800 of surplus farm products at $135, a second approximation would be $4665. If the family used 65 per cent of income before taxes for consumption, this would be $3900, an increase in consumption of $3000. If marginal social cost of increasing consumer goods production by $3000 is $2000 (because fixed costs are already being covered), a third approximation would be only $3665. If taxes paid went from $300 to $900, a fourth approximation would be $3065.[14] An economy that can increase value of useful output by $6000 with an outlay of only $3000 is doing well! Similar

[13] Data from the *Survey of Current Business*, January 1960.

[14] The present value of $3000 a year for 20 years discounted at 6 per cent per year is $34,975. All beneficiaries—individual, county, state and nation—could between them afford to pay as much as $34,975 to obtain the services. Cost of training would be only a small fraction of this amount.

estimates of marginal social cost could be made for an unemployed worker drawing unemployment compensation.

Almost as soon as capital formation is commenced, individual and aggregate productivity will begin to rise. In less than five years, growth of real income per capita will increase and allow simultaneous increases in consumption of private goods and services, public services and personal leisure to be elected.

Marginal Workers

Among underemployed and unemployed workers and those not considered to be in the labor force, there are those whose ability to produce enough income for a minimum standard of living could be achieved only with a great deal of investment. Included are the old, the physically incapacitated, and the mentally or emotionally handicapped. Recently, Southern and Hendrix found 53 per cent of 88,060 rural family heads in northeast Texas to have "human resource limitations" that would influence their economic productivity; for 15,100 family heads on full-time farms, the estimate was 52 per cent.[15]

How far to go in bringing the individual below retirement age to employability lends itself to analysis. The investment is justified economically if his marginal value product after the investment equals or exceeds present labor earnings, and if his earnings less annual charges (interest on the unpaid balance plus the annual payment necessary to amortize the investment over his working years) equals or exceeds earnings (if he is working) or a minimum standard of living (if he is not working). The investment is not justified economically if an individual's potential marginal value product times working years does not equal or exceed the investment cost.

For the underemployed and unemployed, this criterion rules out investment on workers above retirement age and those who are "economically unemployable." Those excluded are the physically, mentally and emotionally handicapped and those whose learning rate could not be raised above a certain level.[16] What is to be the economic fate of the old and the economically unemployable?

What follows stems largely from humanitarian considerations but has

[15] John H. Southern and W. E. Hendrix, *Income of Rural Families in Northeast Texas,* Texas Agricultural Experiment Station Bulletin 940 (College Station, Texas, October 1959), pp. 28–29.

[16] For discussion of the relation of learning theory to farm decision making, see the paper by Lee R. Martin, "Changes in Capital Productivity and Over-all Capital Problems by Size and Type of Farms, and by Regions," read before the TVA *Symposium on Capital and Credit Problems in a Changing Agriculture* at Knoxville on March 29, 1960 and to be published by the Iowa State University Press.

some economic justification. We should award the older and the economically redundant individuals incomes sufficient for a minimum standard of living. Long past are the Jamestown days when society's survival required each person to produce as much as he could. The tremendous productivity in the 1940's of workers on relief or in W.P.A. employment in the 1930's indicates that, in a production-oriented society, the incentive to work is not easily destroyed. The marginal social cost of a minimum standard of living for them would be little over one half the market value of their consumption. This is because of underutilized production capacity: labor, land, and capital goods are not being fully used. Not only would marginal social cost be relatively low, but other social benefits would result from using productive capacity more fully. Producing goods and services for our unemployables would provide gainful employment for employable human resources.

Capital and Land Resources

At present, agricultural capital is probably greater than what is needed for efficient production of the volume required for consumption, export, and storage for future need. Annual production in excess of annual disappearance by some 5 to 10 per cent is evidence of this. Whether additional capital will later be needed for agriculture depends primarily on two factors.

First, the method used to bring production into balance with disappearance will have an important bearing on capital needs. If production controls rigid enough to achieve balance are imposed, some capital value in agriculture will be destroyed. If the government purchases or rents whole farm units at market value, no capital value will be wiped out; instead, capital released by purchase or rental is likely to be diverted into the nonfarm sector. Released capital could be used for human or community capital formation. If too much agricultural capital value is destroyed or diverted into the nonfarm sector, additional capital will be required in agriculture. If low prices continue to prevail for farm products, capital funds will come from outside agriculture. If prices become more favorable, much capital formation can be accomplished internally (from farm incomes).[17]

The other factor influencing capital needs in agriculture is the rate of technological change. If both the *rate of development of new farm technology* and the *rate of adoption of developed technology* are accelerated further, the need for farm capital will increase more rapidly. The levels of investment in research (basic and applied) and in human resources are major determinants of these rates. Increases in research increase the rate of development of technology and an increase in human capital formation raises

[17] For a more detailed discussion of some of these capital problems, see Lee R. Martin, *op. cit.*

the rate of development of technology and the rate of adoption.

Bringing production into balance with disappearance will necessitate retirement from agriculture of 50 to 100 million acres of land, with the exact number depending upon which acres are selected for retirement. Are there alternative uses for this land? Much depends on how the land is retired. If done in such a way that value is determined by productivity in alternative uses, much land will be transferred to forestry, recreation, urban or flood control watersheds, aesthetic uses, and other utility-producing uses. If the value determined by productivity in agriculture remains attached to the land for long, transfers to productive but nonagricultural uses will take place slowly or not at all. Public responsibility for these transfers may be one way of making them take place in the best interests of society. Although the social cost of using land that is redundant to agriculture for nonagricultural purposes is zero, the values of different nonagricultural uses must be compared to ensure that each parcel is put to the best use.

Summary

This paper points out alternative uses for resources redundant to agriculture, which include the production of

1. Privately produced goods and services for low-income families,
2. Higher levels of human and community capital formation,
3. Better defense posture,
4. Aesthetic facilities and services, and
5. Minimum standards of living for unemployables.

Underutilized resources are not being used for these needs because of inadequate levels of human and community capital formation, and because of attitudes toward production in the public sector. Most underemployed and unemployed individuals are not qualified for available jobs in a period of rapid technological change. Too little community capital formation keeps low-income communities from obtaining additional economic activity to provide employment for the unemployed and underemployed. The amount of investment needed to bring human and community capital formation nearer to optimum is not so large as to require great sacrifices from low-income states.

Next it was argued that the existence of underutilized resources (including industrial production capacity) reduces by nearly one half the marginal social cost of providing for the needs listed above.

There may be capital value redundant to agriculture. If so, human and community capital formation could absorb any capital that is released. Productive uses for unneeded land can be found in the nonfarm sector if present land valuations can be reduced sufficiently.

How Advertisers Market to the Oil Industry

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THIS PAPER SUMMARIZES A STUDY made by the author for an advertising agency that specializes in oil industry accounts.[1] The agency executives felt that there was a considerable amount of knowledge about advertising practices of companies in general, a reasonable amount of knowledge about the practices of industrial advertisers specifically, but only a limited amount of knowledge relating to those concerns selling primarily to the oil industry.

There were two primary objectives of this study: first, to study the advertising practices of those concerns whose principal market is the oil industry in general; and second, to examine the attitudes of personnel in the industry itself toward the advertising done by such companies.

A third purpose of the study, though of secondary significance, was to determine if the advertising practices of these selected companies were appreciably different from those of industrial advertisers in general. However, the evidence was somewhat inconclusive regarding this comparison. Further study specifically oriented to this point would be necessary before significant conclusions could be drawn.

It is necessary to define at least two terms in conformance with research procedures used during the study. The first term, marketing, is defined as "an organized approach to the joint problems of advertising and selling." While this definition might not meet with the approval of marketing academicians, it was considered appropriate for purposes of this study.

The second term requiring a definition is the "oil industry," a commonly used, broad term that has several meanings. To the general public, it probably means the big oil companies. But to people in the business, it might

NOTE.—The original paper, of which this is a summary, was delivered by Dr. Young, William Koby, and Arnold Barban, also members of the Department of Marketing at the University of Houston.

[1] The Houston offices of Marsteller, Rickard, Gebhardt, and Reed.

mean the oil exploration industry, the oil well drilling industry, the production phase, the pipeline industry, the refining or petrochemical industry, and perhaps, finally, the marketing or final retailing side of the industry.

Most of the information presented in this paper relates to the *oil well drilling industry,* because this is the part on which this study was concentrated.

Procedure

To achieve the first purpose of the study—an examination of the advertising practices of concerns selling primarily to the oil industry—the following frame of reference was established. It was assumed that there are two broad types of advertisers who are interested in the oil industry. One such advertiser might be the Ford Motor Company, and another might be a concern such as Hughes Tool Company. Although Ford would obviously have an interest in the industry, perhaps in selling trucks, the oil industry would certainly not be Ford's principal market. On the other hand, Hughes Tool Company concerns itself primarily with products, such as rock bits, that are of special interest to the oil industry, particularly the oil well drilling industry.

It was further assumed that if emphasis was placed on the advertising practices of a company such as Ford Motor Company, the findings would reveal the same broad type of information available for industrial advertisers in general. All companies such as Ford were, therefore, eliminated for purposes of this study, and concentration was placed on those companies whose *principal* market is the oil well drilling industry. A list of 450 such companies was prepared.

When the names of these companies had been established, together with the names of individuals connected with them (preferably in the capacity of advertising managers) questionnaires were mailed to each of them. The questionnaires dealt with a number of areas, including the following: the use of advertising budgets, the tightness of budgetary control, attitudes on believability, areas in which advertising managers would have to "grow" in order to be of more value to their companies, and similar topics. The overall rate of return was approximately 27 per cent of the mailings, probably somewhat higher than the typical rate of return for mail questionnaires. One factor contributing to this was the fact that cooperating advertising managers were promised a summary of the findings of the study.

As a part of tabulation procedures as well as an attempt to validate the sample findings, answers on selected questions were compared with those of other studies, the results of which were available to the agency. These

comparisons indicated only slight differences. This, of course, is not mentioned as evidence of statistical validation, but only as a method of making comparisons with the findings of other research studies.

Special tabulations were also made to determine the proportionality of returns, by states, as compared to mailings. In no case was there a difference of more than two per cent.

To achieve the second purpose of the study—an analysis of attitudes about oil industry held by personnel in the industry—the following procedure was used. Cooperation from two organizations was obtained for mailing purposes. One of these organizations was a well-known publisher of an important oil industry magazine. The other was a large, and also well-known, producer of a line of products generally used in connection with drilling activity. Questionnaires were prepared, placed in envelopes, and turned over to the mailing departments of both organizations. Instructions were given to mail clerks to pick every "nth" name from their mailing lists, classified by state, by type of employment, and by type of company—major or independent.

Over 2,000 questionnaires were mailed to oil industry personnel. The rate of return from these mailings was approximately 14 per cent. Special tabulations were made to determine if proportionality between mailings by state, by type of employment classification, and by major and independent company status had been achieved in terms of returns. Generally, there were only slight differences found. Another special tabulation, made to determine whether there were differences in attitudes of oil industry personnel revealed between the two mailing lists, found no appreciable differences between the two groups. There was, of course, no way for the recipient of a questionnaire to determine that it had been mailed by an organization other than the advertising agency.

Partial Findings

For purposes of comparisons, companies responding to the advertising manager questionnaires were classified into three groups, depending upon the size of their stated annual advertising budgets. A company which spent less than $25,000 was classified as a small advertiser; one spending between $25,000 and $100,000 was classified as a medium-sized advertiser; and one whose annual budget exceeded $100,000 was classified as a large advertiser. Several results were considered to be of interest in terms of this classification.

First, the official in the smaller company often does not have the title of advertising manager. He often was called a sales manager, and in many cases was the owner of the business. It was fairly evident that he was spread-

ing his managerial abilities over a number of areas. This was somewhat true of the medium-sized concern, although not to the same extent. In the case of the large advertiser, advertising responsibility was always placed in the hands of an advertising manager.

One of the questions asked of the advertising managers was: "In what direction do you think you must improve your ability in the next five years?" All three of the categories of advertising managers indicated they needed more knowledge about *marketing*, but the advertising manager from the large concern was more emphatic about this. Moreover, all three groups, surprisingly, ranked knowledge about marketing, together with information on marketing research and knowledge of foreign marketing, considerably higher than knowledge about advertising techniques.

Another question was: "Do you have an advertising budget?" The large advertiser, spending $100,000 or more a year, almost always had a budget. The medium-sized advertiser said he usually had a budget, but by no means always. More than half of the small advertisers had no budget at all.

The amount spent for advertising, expressed as a percentage of sales, ranged from about one half of 1 per cent to about 3 per cent. An average amount spent by all respondents was approximately 1.1 per cent, which is reasonably in line with the ratio spent by similar industrial advertisers in other fields.

A question relating to the tightness of budgetary control indicated that the smaller the amount, the less the control. On the other hand, the large advertiser almost always knew how his advertising dollar was going to be spent for the coming year.

Regarding advertising believability, about 14 per cent of advertising managers stated that they felt their advertising was "usually highly believable." Another 51 per cent felt that oil men would consider their advertisements to be "usually reasonable." Only one advertising manager out of a hundred thought oil men would feel that ads are "sometimes exaggerated."

On the other hand, oil men in the field had somewhat different notions about the believability of oil magazine advertising. Fourteen per cent of them felt that such advertising was "sometimes exaggerated" as compared to 1 per cent of advertising managers. About 68 per cent of this group considered oil field equipment advertising to be believable "to a high or reasonable degree."

Customers were also asked what advertisers could do to make advertisements more believable. More than anything else, customers felt that specific case histories were especially believable. They were emphatic in saying that the *specific* case histories are more believable than those which are *general*

in nature. Liberal use of charts, photographs, and diagrams, in the opinion of oil industry men, contribute to believability far more than do paintings and wash drawings, or other "pure art."

Another way to improve believability, say the oil men, is to show the results of actual tests, which should be either field tests or tests conducted by outside agencies. They don't consider as especially believable advertisements showing the results of *inside* lab tests.

Customers were asked what subjects of advertisements they prefer. Most of them indicated a preference for ads showing new products or services, new uses of present products or services, and performance data. They weren't particularly interested in information on price.

Advertising managers were asked, in order to establish some evidence as to the breadth or narrowness of the frame of reference in which they approach their positions, their opinions on the cost of a sales call. They were asked what it cost their firm, in salary, in sales expense, and in management overhead, for each sales call they made. The small advertiser indicated that he didn't know the cost involved. The medium-sized advertiser usually didn't know, but in a few cases, he felt that it would cost $15 or more per call. On the other hand, the large advertiser, in almost every case, had a fairly definite opinion. He believed that such a cost would range somewhere between $15 and $30, but also added (far more regularly than did advertising managers in the smaller concerns) that such information was difficult to obtain. All three types of advertising managers stated that they believed much more information should be obtained in the area of distribution costs in general.

Limitations

A number of pertinent limitations to this study should be pointed out. First of all, the findings should not be assumed to be particularly applicable to industrial advertising in general. While in some instances comparisons were made with other studies dealing with phases of industrial advertising, these instances were limited in nature.

Second, the findings presented here do not necessarily apply to all oil industry advertising since particular emphasis in this study was made in the oil well drilling phase of the business.

Third, the limitations of mail survey sampling techniques should be fairly obvious. Sample selection depends, of course, upon the availability of accurate and up-to-date mailing lists. There was no way, in this study, to determine the accuracy and completeness of mailing lists; however, every effort was made to obtain accurate and complete lists. Marketing researchers have long recognized that the mail-questionnaire respondent may be a somewhat

different sort of person from the nonrespondent, i.e., he may be biased in his attitudes. The author believes that the advertising manager who replied to the mailed questionnaires in this study was probably much more interested in the types of questions asked than was the nonrespondent group, and hence the findings mirror opinions and attitudes of respondents, and not necessarily the opinions of those who did not return the questionnaires. The fact that it was not expedient to personally contact a given sample of the nonrespondents to determine both the presence and the degree of possible bias is assumed to be a limitation of significance.

Conclusions

The findings of this study indicate a number of things that an advertising manager should attempt to initiate in order to do a better job. First, there is considerable evidence that he needs to organize himself a little better. He needs to decide whether he is an advertising man or an advertising manager—that is, whether most of his time is taken up with writing copy, making layouts, and analyzing media and markets with respect to a particular problem; or whether he is able to concern himself most of the time with the broader aspects of advertising, as outlined in the recommendations that follow. If an advertising manager is also the advertising man, which he often is in smaller companies, he is faced with a real challenge in attempting to perform both phases of the advertising job efficiently.

Second, a definite advertising budget should be established, and this amount should have a basis for existence. It should be based on either past or future sales or on a task to be done. The budget should also be defined in terms of where expenditures are to be made during the coming period.

Third, an advertiser should have an advertising plan. What are the goals of the advertising, how much money will be spent for space, how much money for printed materials, how much money for each part of the plan? This is particularly important in the case of the smaller advertiser, who in about two thirds of the cases, cannot tell how he will spend next year's funds.

The fourth recommendation to the advertising manager is that he develop a consistent pattern for his firm's advertising. This does not mean using the same magazine all the time, or using the same copy appeals year after year. Any advertiser should change his advertising to fit new marketing conditions. But at the same time, it means being consistent enough to maintain the flywheel momentum that is a valuable bonus.

A fifth recommendation is that the advertising manager should find ways to check on the reactions and opinions of his particular market. Advertisers make far too limited use of readership studies, consistent analyses of coupon returns, and other generally accepted means of checking on effectiveness.

A final recommendation to the advertising manager is that he approach his position in the sense that he is one member of a "marketing team." Generally, there is much too little cooperation and exchange of information with sales managers. This study, as well as others made by the author with the Marsteller organization, revealed that advertising managers often do not have access to sales information, some of which would help them immeasurably. Also, far more emphasis should be placed on distribution cost studies, both in the somewhat more specific area of advertising costs and in the broader field of general marketing costs.

The Status of Schools of Business Administration in a Changing Society

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WHAT HAS CHARACTERIZED SCHOOLS of business administration in the past? What developments are presently taking place which seriously affect the status of business schools in a changing society? In what direction is the business community moving, and how can schools of business best cope with these changes in direction and these new developments? This paper is intended to throw some light on these questions by presenting a few conclusions drawn from the vast amount of information recently published on the subject and from the observations of the author.

The intention of this paper is not to be critical solely for the sake of criticism, but to suggest ways and means by which schools of business administration can continue to survive, grow, and contribute as much as possible to the educational community, the business community, and the other communities of which they are a part. Both the Gordon and Howell[1] report and the Pierson[2] report describe the business schools of the past and present in a rather uncomplimentary manner. One glaring implication of these reports is that schools of business, though advocating the necessity of continual changes on the part of business organizations in order to survive, have failed to recognize the necessity of change for themselves. Instead, they appear satisfied to maintain the *status quo* and to grow complacent in their thinking.

It is generally recognized that no field requires greater skill, imagination, and capabilities than the field of administration, whether it be small business or corporate administration, institutional or public administration. But in many instances, as the Gordon and Howell and Pierson reports point out,

[1] Robert A. Gordon and James E. Howell, *Higher Education for Business* (New York, Columbia University Press, 1959).

[2] Frank C. Pierson and others, *The Education of the American Businessman* (New York, McGraw-Hill Book Company, Inc., 1959).

business schools have become the refuge for students who could not make the grade in other areas of study, and thus business schools have to some extent catered to this type of student. In planning their programs of study the schools of business have lowered their standards to fit the students instead of attempting to raise the students to a higher level. They have also underestimated the capacity of the average college student, and they have failed to challenge his ability and mentality. It is, therefore, no wonder that business administration schools do not attract as many good students as do some other schools, and that they are, at times, not very well respected by the academic community. Of even greater significance to continued survival are the intimations that the business community itself is not enthusiastic about the work that schools of business are doing and about the graduates they are turning out.

The dissatisfaction of the business community with the schools of business administration is indicated by the fact that many business corporations which at one time hired business school graduates are now hiring engineers for management training and other types of employment programs. It appears that this trend is developing not only because of the technical training which engineers receive, but also because engineering schools attract better students and train them more rigorously. Thus, the attitude has developed that the chances of getting better management potential are increased by hiring engineers.

Another indication of the declining prestige of business schools is that corporations, which at one time interviewed only business school graduates, are now interviewing graduates from almost all fields of study. The principal criteria for selection have become the thinking ability of the individual and his potential to advance in the organization, rather than the subject matter that he has studied. The business corporation has been forced to consider students in other areas of study because schools of business administration do not produce sufficient numbers of high caliber individuals with ability to think and with administrative capacity.

Thinking ability, imagination, and potential to advance in the organization are given increased consideration because of the realization that the "dumping grounds" are filled and are not likely to expand. The bottom levels of organizations are already filled with individuals who do not have the capacity to advance in the organization; and these bottom levels are not likely to expand because of the developments in "information technology" which have reduced the need for the traditional clerk, and which have placed increased emphasis on employees with ability to grow and develop in the organization. In the area of "information technology" new techniques have been developed: processing large amounts of information

rapidly; application of statistical and mathematical methods to decision making problems; mathematical programming; operations research; and the simulation of higher order thinking by computers.[3] The rapidity of developments in this area, the growing complexity of business problems, and the increasing momentum of innovation point to the need for a more highly trained, more skilled, more imaginative employee. And since our society is continuously placing more emphasis on new and better techniques of production, organization, and administration, its need for highly trained and imaginative personnel will rise at an increasing rate.

Moreover, the increasing complexity of the administration of business organizations, both from an internal standpoint and from the standpoint of coping with multifarious external forces, is placing an added premium on imagination, flexibility, and the capacity to produce valid answers for questions never asked before. In fact, the continued existence of business as a free organization will depend to a great degree on the ability of businessmen to think of reasonable answers before the questions come up. Business organizations are too often placed on the defensive by failing to think ahead of the various forces of society.

Business organizations are becoming more and more subject to criticism from a moral, political, and philosophical standpoint. The responsibility of business in a free society, the business organization and its effect on the individual, the role of the businessman in politics, and the spiritual and philosophical justification of businessmen and of business organizations are but a few of the various questions directed at business at this time. There is no indication that these types of inquiries will subside in the near future. On the contrary, the increasing unrest of the world populace, the competition between economic and political systems, and the need for logical reasoning by businessmen outside their field point to the need for a broader and more liberal business education which will enable men to handle questions in the world of ideas as well as in the world of business.

With the greater emphasis placed on imagination, intelligence, and ability to think, some attempt should be made to develop these capabilities in our students. Thus, more emphasis must be given to the analytical approach to business education and much less emphasis to the descriptive courses which are usually out of date by the time they are taught. Only by teaching students how to think and reason logically can the school of business prepare them to recognize change and to adjust to a continuously changing environment.

[3] For additional information on the subject on "information technology" and its effect on management see H. J. Leavitt and T. L. Whisler, "Management in the 1980's," *Harvard Business Review*, November–December, 1958, p. 41.

Discoveries and advancements in the field of "information technology" will require of the administrator a greater understanding of mathematics and its application to the decision-making process. Therefore, attention must be continuously focused on developments in this area and students must be given the opportunity to attain some degree of proficiency in this field.

In the programs of business education more stress should be given to the study of administration. A rather strange paradox exists in most schools of business administration. The name, business administration, is usually a misnomer, for the programs in most schools consist of a study of business terminology and include very little, if any, study of administration. The necessity for more concentrated study in the field of administration should be evident from the fact that success in organizations does not depend upon mastering the applicable terminology, but rather on administrative skill, the ability to think, and the utilization of creative powers. To develop properly the administrative ability of our students, more attention should be given to having them schooled in the behavorial sciences as well as in applicable administrative courses in the business area. There is much to indicate that the future success of schools of business administration will depend to a great degree on their becoming schools of administration rather than remaining schools of business.

To prepare students to deal with the world of ideas, they should be required to study with some depth the social sciences and the humanities. Their curricula should include enough study in the liberal arts to give them an understanding of social, human, political, and philosophical problems and to develop the broad type of individual that organizations require. Only by acquiring such knowledge can business students develop an understanding of the relation of business to its total environment.

To many people, the changes suggested in this paper will spell the end of schools of business administration. Nevertheless these changes are necessary to meet the challenges facing business schools, to improve the caliber of their graduates, and to broaden their minds. For such upgrading and broadening has been made necessary by the very reason for business schools' existence: to furnish the business community with the type of employee that it requires. Such a program is also the only method to draw a greater number of the better students to the field of business administration. The enrollment in the departments of science and engineering show that the more rigorous and more respected programs of study are attracting not only an increasing number of students, but also a larger percentage of better students. Certainly the better students will not be attracted to schools of business administration

unless the schools challenge them and give them the type of education that they, society, and the academic community respect.

The suggestions and recommendations in this paper point to a program of study which will be more rigorous and more challenging to the student. Such a program will require upgrading as much as possible the content of courses, curricula, and methods of instruction. This paper also points out the necessity for flexibility so that business schools can adapt their programs of study as society changes and new ideas develop, and so that they may educate young men for the future rather than for the past or the present.

The Economic Role of Government

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IN CLASSICAL ECONOMICS, government had a minimum role; and under the influence of Darwinism, even Adam Smith seemed to Spencer to have given government an excessive role. In the nineteenth century the great economists were concerned with the distribution of income among labor, capital, and landowners (e.g., Ricardo) or with the allocation of resources (e.g., Marshall).

But the Great Depression and the earlier economic troubles of the British resulted in a shift of emphasis. By the end of World War I, Mr. Keynes was beginning to be worried over the possibilities of saturation of markets. (Recall that J. S. Mill and Hobson had anticipated some of these problems.) Events in the interwar period influenced economic thinking, rather than the reverse. (The effects of Keynesian thinking on policy became much more evident in the post-World War II period than before, though the New Deal to some extent reflected the influence of Keynes and his disciples.)

What troubled Keynes was the large wastage of unemployed resources. He assumed that the problem of the most effective combination of factors of production had largely been solved. But he would not accept the inevitability of large doses of unemployment. Hence he urged a larger scope for government, namely a responsibility for assuring adequacy of demand through appropriate monetary and fiscal policies. The government was to add to demand when private demand was inadequate through reduced taxes and additional spending, and to subtract from demand through tax increases and reduced public spending in periods of exuberance.

In urging general measures of this type, Keynes hoped to minimize the interference of government in the myriad of decisions made by the people in the market place. To save capitalism we had to have a larger degree of government intervention. Above all, he was critical of the Russian techniques, and wrote some of the most brilliant attacks on Russian methods and some of the most brilliant defenses of liberty.

In 1931, for example, Keynes wrote:[1]

[1] J. M. Keynes, *Essays in Persuasion* (London: R. Hart-Davis, 1931), p. 161.

At the present time, all governments have large deficits. For government borrowing of one kind or another is nature's remedy, so to speak, for preventing business losses from being, in so severe slump as the present one, so great as to bring a production altogether to a standstill. It is much better in every way that the borrowing should be for the purpose of financing capital works . . . but so long as the slump lasts on the present scale, this is the only effective choice which we possess. . . .

Under the influence of two world wars and the Great Depression, government's role has greatly increased. Once the people have achieved a reasonable standard of living, it is of course easier to siphon off cash for public purposes. But large public expenditures also depend on an appropriate tax structure. The development of the direct tax has been decisive here.

Individual income taxes rose from zero in 1902 to about two thirds of all taxes exclusive of payroll taxes by the late 1950s.[2]

With the growth of the country and the intensification of internal and external crises, the federal government's relative contribution continued to increase. As shown in the table below, at the beginning of the century local governments' tax receipts were five times those of state government, and state and local greatly exceeded those of the federal government. By 1959 state and local tax receipts were roughly equal, and federal government's receipts were about twice those of state and local government. Responsibilities of state government increase relatively, and of the federal government even more.

Tax Revenues and Per Cent Federal, State, and Local Tax Revenues of Total Tax Revenues, All Levels of Government, 1902, 1927, 1938, 1948, 1958

	Total Tax Revenue	*Federal Tax Revenue*		*State Tax Revenue*		*Local Tax Revenue*	
	$ Million	*$Million*	*Per Cent*	*$ Million*	*Per Cent*	*$ Million*	*Per Cent*
1902	1,373	513	37.36	156	11.36	704	51.27
1927	9,451	3,364	35.59	1,608	17.01	4,479	47.39
1938	12,949	5,344	41.27	3,132	24.19	4,473	34.54
1948	51,218	37,876	73.95	6,743	13.16	6,599	12.88
1958	98,387	68,007	69.12	14,919	15.16	15,467	15.71

Source: Adapted and calculated from *Governmental Finances in the United States, 1902–1957*, G-CGA-No. 9 (March 1959), U.S. Department of Commerce, Bureau of the Census, Tables 2, 3, 5, 6; and *Governmental Finances in the United States, 1958*.

I believe that most economists have accepted the broad outlines of Keynesian economics at least in the range of issues being discussed here. A survey

[2] See U.S. Census Bureau, *Governmental Finances in the United States, 1902–1957* (March 1959), pp. 16–17.

of government expenditures and revenues in the nineteenth century reveals that as a rule government responded in a manner to be approved by Keynes even though Keynesian economics was still to be born. This was largely the result of the automatic decline of tax receipts with the oncoming of a depression.[3]

Despite the advances of Keynesian economics, the policies of the country in the Great Depression were indeed perverse. President Hoover was determined to treat a rising deficit as the national income drastically declined by raising taxes and cutting expenditures. Even Candidate Roosevelt was critical of the deficits that remained despite President Hoover's attempts to balance the budget. The President had not learned that the budget is an instrument of economic life, not a goal.

Nor is it clear that the economists—however much they have learned—have succeeded in impressing politicians and the public to whom the latter are answerable that the responsibility of the government is to tailor expenditures and taxes to the needs of the whole economy. In 1953–1954, the Administration cut expenditures and restricted monetary supplies, thus helping to bring on a recession; and then to the plaudits of economists, the Administration cut taxes and eased the monetary situation, thus bringing on a quick recovery. But in historical perspective it seems that the tax cut was in fact a redemption of the promises made in the 1952 campaign rather than a reflection of the acceptance of or awareness of Keynesian economics. Events since 1954 tend to confirm this statement. President Eisenhower and his main advisors time and again have opposed tax cuts in recession and have promised tax cuts once an adequate budgetary surplus is achieved—that is, when the country is at a high level of prosperity. This is upside-down economics.

Growth Versus Stability of Currency

In the last five years or so, the debate over government's role has moved up to another plateau. The emphasis is on alternative objectives of government. The Democrats stress the objective of growth; the Republicans, stability of the currency.

What is meant by growth? The usual measure is the annual percentage increase of Gross National Product (GNP). How much depends of course on the rise of population and the output per capita. The latter in turn is related to the effective use of the factors of production, such as the best combination and the highest utilization (e.g., largest proportion of workers in labor market and highest ratio employed). In a sense this current discus-

[3] See the analysis of the period 1815–1932 by Trescott, *Expenditure Policy for Economic Growth and Stability* (Joint Economic Committee, 1957), p. 73.

sion of growth is a by-product of Keynesianism, though the Keynesian approach with its emphasis on full employment is somewhat narrower than the current approach.

The issues can be clarified by the statements of supporters and opponents of the Administration. For example, the Douglas Committee on Employment, Growth, and Price Levels points out that in 1947–1953 GNP (in 1958 prices) rose 4.6 per cent per year, whereas in 1953–1959 the rise was but 2.3 per cent per year. I estimated that a continuation of a rate of growth of 4.6 per cent to 1959 would have yielded $75 billion of additional GNP per year by 1959. By 1975, the Douglas Committee estimated that a 2.5-per-cent rate of growth would yield a $713 billion GNP; a 4.5-per-cent rate, $971 billion.

The minority report of the Joint Committee, however, points out that the years chosen for comparison are not fair; that from 1945 to the peak of the war boom in 1953 growth was less than 2 per cent. But I should add that with a deflation of military purchases from $90 to $11 billion in the years 1944–1947, the propriety of including the years 1945 and 1946 may be questioned.

In general, I would attribute the slower rate of growth under President Eisenhower to an excessive interest in stabilizing the price level and hence restrictive monetary policies, even in recession periods at times, and to the two recessions in 1948–1949 and 1957–1958, which in part stemmed from mistaken policies and were prolonged by the acceptance of an ideology that natural market forces would effect a recovery. Indeed automatic reduction of revenue and a deficit of $12 billion helped bring on recovery; but more aggressive tax cuts and spending policies would have accelerated the recovery in 1957–1958.[4]

Differences between the parties and their economist advisors stem in part from varying value systems. The Republican ideology calls for minimum governmental interference, maximum freedom to spend income privately, and policies oriented more toward stability of the dollar than growth. And it calls for reliance on monetary policy to achieve these objectives rather than on fiscal policy. The last is a matter of ideology in that the Republican Party considers monetary policy as the minimum interference by government and fiscal policy, involving variations in taxes, spending, and debt management, as a greater degree of interference. There is also a reluctance in Washington to listen to men of ideas rather than men of action. And in such matters the men of ideas are ahead of the men of action.

[4] Cf. S. E. Harris, *Analysis of Hearings, Senate Finance Committee: Investigation of the Financial Condition of the United States* (1959), Part 7, Chapter 11, especially pp. 2168–2170.

The choice of monetary over fiscal policy as a weapon of economic operations is not, however, dictated exclusively by ideological considerations. Those stressing the use of the monetary weapon also assume they can achieve their objectives, e.g., stabilization of prices, through adjustments in the supply of money. A more sophisticated view is that in the kind of inflation that prevailed in the years 1955–1958, it was necessary to mobilize all weapons, including control of expenditures, and at least a modicum of wage and price control. In other words, this was not a classical type of inflation.

This value system gives the government a minimum role. Excerpts from the President's speeches in the last eight years give some idea of the Administration's philosophy: ". . . the best government is the least government;" we follow the "Lincolnian dictum of doing for people things they can't do well themselves;" ". . . we seek in America a government close to the people and responsive to their needs . . . we want to walk along other roads than along the Potomac;" ". . . the price of continued liberty, including a free economic system, is a reduction of federal spending and taxes;" ". . . we must provide incentives . . . that supplement human efforts. . . ."

When the President tended to deviate from the demands of his philosophy, he was set right by his overbearing advisors, and especially the persuasive and personable Secretary Humphrey. Thus when confronted with a demand for selective credit controls, Secretary Humphrey replied ". . . I do not believe that there is any group of men who are so smart that they can tell everybody in America what to do and be wiser than the great bulk of our people who are activated by an incentive free choice system."

Again, this is what Under-Secretary Burgess had to say:

> . . . that is a point we always try to make, that when the Government spends money, it does not produce goods which the people can buy.
>
> On the other hand, if we have an increase in commercial loans of banks, the mechanical effect at the borrowing window may be just as inflationary as with the Government, but the people who borrow use the money normally to produce goods or services which meet human needs, so it tends to balance off the additional creation of money. . . .
>
> May I put it another way: that we ought to draw a distinction between productive debt and nonproductive debt. One comfort that I take out of the present inflation, which is a capital goods inflation, is that it is producing this great expenditure of capital for machinery to produce goods which will meet the demands of the people, so it contains within itself, I think, some of the seeds of its correction. Government debt is not productive; therefore, it is the worst kind of debt.[5]

In general the Administration wants as little government as possible, and

[5] Senate Finance Committee, *Investigation of the Financial Condition of the United States* (1959), pp. 1129–1130.

that means small federal budgets, balanced budgets, and if the government must spend, the more spent by state and local government the better.

In contrast, the Democrats would give government a larger task. They would have government spend more, and though they would try to balance budgets, they would put other objectives much higher on their scale of preference. It would be a mistake to assume that the Democratic Party has swallowed Keynesian economics and the Republican Party has repudiated it. But in general the Democratic Party and their economic advisors are more disposed to spend, to unbalance budgets, and to create large supplies of money than are their Republican counterparts.

Republican policy stresses the need of large private investments; the use of maximum incentives, and therefore, low taxes; the protection of savings through a stable dollar. In this manner they believe that they can induce the maximum output. An unstable dollar erodes savings and savings are the source of investment; and a productive economy requires an adequate volume of investment. In part this approach is explained by a concern for the welfare of the high income groups, the savers, the businessmen; and in part by a support of economic analysis which ties high output to large savings and investments and a stable monetary unit.

In one respect the ideology and economic analysis are surprising. Wedded to the theory that the best government is the least, the Administration nevertheless strives to arrogate much authority to itself as against Congress. A strong government is more likely to stem from the usurpation of power by the Executive than by Congress. Yet in the great struggle over a ceiling on the interest rate for government bonds, the Administration demanded that it should be freed of ceilings on rates and thus be allowed to commit the government to large expenditures even though the Constitutional right to spend money rests with the Congress, a right protected over many years by Congressional determination of ceiling rates on debt.

Often the various objectives of government are in conflict. For example, the need of mobilizing resources, as in war, may shatter the chances of a stable currency. At such times, output takes precedence over stability. Many have contended that in the Cold War and the threat of the Communist conspiracy that our concern should be first with output and second with stability, recognizing of course the interrelation of the two. Almost all would agree, that a 1-per-cent rise of prices and a 10-per-cent increase of output reflect successful policy; but a 10-per-cent increase of prices and a 1-per-cent rise of output suggest a policy failure.

Our objectives are not merely to stabilize the economy and increase output, that is, to make the economy more efficient. Welfare considerations are also important, as Professor Homans so well observes. It may be more

desirable to absorb rising productivity in increased leisure rather than in a higher output. Over the last century we seem to have chosen a rising standard of living, for the most part, over increased leisure. Our choice now might well be in the opposite direction if the Russians were not breathing down our necks.

Under the New Deal and Fair Deal, the government tended to stress welfare considerations. Through legislation on housing, agriculture, social security, labor, etc., the Roosevelt and Truman Administrations attempted to redistribute income in favor of the low income groups. They were not greatly concerned that such measures might stifle incentives through the effects of higher taxes. They were prepared to sacrifice higher output in order to achieve equity, while also contending that more resources spent on education, medicine, housing, slums, and on the underprivileged would sustain demand and raise productivity. The percentage rise for all family incomes (in stable dollars) from 1935–1936 to 1950 was 57 per cent, 78, 81, 75, 62, and 34 per cent for successive quintiles beginning with the lowest fifth; and the gains for the top 5 per cent were only 17 per cent. The improved distribution of income from 1935–1936 to 1950 was not continued into the fifties.

Excessive attention to budgetary problems is reflected in a myopic attitude toward public policies. For example, it is clear that our security has been jeopardized because the Administration feared further rises of taxes and an unbalanced budget. Even as our international commitments rose and our international position deteriorated, our outlays for defense, corrected for prices, dropped seriously.

In no area has the issue of the restricted budget raised more serious problems then in defense. A cut of about $10 billion early in the Eisenhower Administration had serious repercussions. Once we allow for the price changes, the defense budget is down by about one third under Eisenhower, even though our international position continues to deteriorate.

This is an Administration of too many Secretaries of the Treasury, of too few Defense Secretaries.

As early as 1952, the President had warned of the imperative need of defense cuts, and without an impairment of our defense position. Quite recently the President said that "a balanced budget in the long run is a vital part of national defense. . . . we are finally going to a garrison state."

Throughout, finance has taken precedence over defense. The Gaither Committee, the Rockefeller Brothers, the National Planning Association, the CED, in fact every expert report has demanded at least $5 to $10 billion more for defense per year. Surely out of our income of $500 billion growing at a rate of +$20 billion a year we can afford, if necessary, to spend an

additional $10 or even $20 billion per year on defense. To save millions of lives and avert destruction of our more than a trillion dollars of wealth and ½ trillion dollars of output, there is no way other than an adequate defense posture.

Budgetary considerations have been paramount. In the large military cuts of 1953 the Chiefs of Staff were not even consulted. Even Defense Secretary Wilson, returning from a NATO Conference, found the arithmetic all worked out for him. "Much to [my] surprise . . . most of the cuts seemed to show up in the Air Force Program."

General Ridgway, Chief of Staff, revealed that the first three Eisenhower defense budgets "were not primarily based on military needs. They were squeezed within the framework of pre-set arbitrary manpower and fiscal limits. . . ."

Mr. Baldwin of the *Times* agreed that fiscal considerations were decisive.[6] And Walter Lippmann could say early in 1959 ". . . we are approaching one of the great climaxes of the cold war and the President's decision about the paramountcy of the budget reflects a failure to understand the nature of the cold war."

The economist can speak qua citizen as well as qua economist. He can show that a rise of federal expenditures from a few billion dollars to 80 billion dollars over a generation has not wrecked our economy. In fact we have never been more prosperous. He can also estimate that, with a 200-billion-dollar rise in GNP in ten years expected on the basis of past experience, we can surely afford much larger military outlays. We do not know what the danger point is in the ratio of taxes to income. We do know that we are far from bankruptcy even though the tax burden has increased absolutely and relatively. In fact we have continued to improve our standard of living even as tax rates have risen. We also know that the British with much heavier tax burdens than ours have experienced a remarkable advance of production in the postwar period. We also know that since 1953, federal expenditures as a percentage of GNP have declined from about 20 to 14 per cent. Who would argue that we are lost if taxes are increased by 2 per cent of GNP in order to make us strong enough to deter attacks?

Conclusion

The government has a big role to play in the world of today. Facing the competition of the Communist world, we are at a disadvantage just because we must preserve our freedom. The Communists can make a small economy go much further in defense and education than we can. This is proved by

[6] *The New York Times*, March 21, 1954.

the fact that with a GNP only 40 per cent as large as ours they have a defense establishment which, according to most observers, is at least as good as ours.

We can meet this competition by growing at a rapid rate so that, even with our present system not greatly modified, enough can be diverted to government to assure an adequate job in defense and welfare; or failing an adequate rate of growth, we shall have to yield increasingly to higher rates of taxes and controls imposed by the government.

Adequate growth requires an understanding of modern monetary and fiscal tools. The objectives are to raise output, not starve it. If the government is to do an effective job, we must stop thinking in terms of dollar costs. Rather, we must relate these taxes and expenditures to our national output.

A prosperous economy requires adequate spending and minimum losses through unemployment. We have had a fair measure of prosperity since 1952 because the federal government has succeeded in putting everyone heavily in debt but itself. For an Administration which prides itself on the Calvinistic virtues of hard work, thrift, and economy, this is surprising.

Out of the $272-billion increase of debt under Eisenhower, the federal government's debt rose by $20 billion, not a large rise in view of the growth of the economy during this period. In fact, in relation to GNP the debt is half as large as it was at the end of the war. This increase of 9 per cent in federal debt should be compared with our overall increase of 48 per cent, with one of 116 per cent for state and local governments, 54 per cent for corporations, and 97 per cent for individuals. Residential mortgage (nonfarm) debt alone increased from $75 to $160 billion in these 7 years, and consumer debt from $27 to $51 billion. This is indeed a prosperity born of getting into debt.

The rise of debt has helped keep the nation prosperous. But perhaps debt is growing too rapidly in some quarters. State and local governments in particular are in trouble, and a serious depression could be most embarrassing to the average American. The model figure for the ratio of regular payments on debts to disposable income is 33 per cent.

Postwar Developments in Southeast Asia

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DURING THE DECADE and a half which has elapsed since the end of World War II the peoples of Southeast Asia have engaged in a search for political stability. The persistence of unsolved problems, widespread corruption and the breakdown of governmental services, and recent events—such as the 1958 revolution in Indonesia, the shifting regimes in Burma, and continued Communist pressures throughout the area—indicate that the search is far from over.

The Southeast Asian quest for viable political arrangements embraces two phases: first the drive for national independence, the seeds of which go back into prewar colonial days; and second, the efforts to establish and operate acceptable political systems once the original goal had been attained.

Of the first, I think one may fairly say that the goal of independence has been reached throughout the region for all practical purposes. Today only three colonies—British Borneo, Singapore, and Portuguese Timor—remain, while a fourth, West Irian in New Guinea, is the subject of bitter dispute between Indonesia and the Dutch. For the rest, seven or eight new entities have emerged as sovereign, independent states, each with its own peculiarities and problems, and each professing a particularistic nationalism.[1]

The denouement, however, has not always had the happy results the nationalists hoped for or expected. The breakup of any established political order is a complex rather than a simple process, particularly in regions as diverse and complex as those which comprise Southeast Asia. Rather than solving problems, the attainment of independence has tended to create new ones, or at the very least, to shift responsibility for solving pre-existing problems from the colonial powers to the localities themselves. Inasmuch as the latter were generally underdeveloped economically and unprepared politically to assume the burdens, their efforts have been uncertain and insuffi-

[1] Thailand (Siam), of course, was already independent, having escaped outright annexation by a colonial power.

ciently productive to satisfy the original high hopes. The results have been discord and political strife, complicated, and often confused, by the interplay of interests and aspirations which have developed within each country.

Despite the hazards of generalizing, it appears that a number of factors—each of which must be applied specifically to each particular area—contribute to the difficulties that have beset the newly emergent states. These are: first, the circumstances under which the different nations achieved their independence and the effects of these circumstances on their outlook; second, the internal needs of each nation and the arrangements made to satisfy them; and third, the development of several major political problems in the post-independence period, as will be discussed.

The Achievement of Independence (Merdeka)

Prior to the Second World War most of Southeast Asia was under the colonial domination of three major powers, Great Britain, the Netherlands, and France. Of the portions outside their control, Portugal had minor holdings, while Thailand was independent. The Philippines had gained Commonwealth status in association with the United States as a result of the Tydings-McDuffey Act of 1934.

In the colonial areas fledgling nationalist movements early in the twentieth century began to appear and to agitate for amelioration, and even dissolution, of the imperial regimes. The Second World War, and the circumstances under which it ended, afforded opportunities which the native leaders were quick to exploit to hasten the realization of their goals.

The transitions, however, were far from smooth. A war-time decision gave the British primary responsibility for operations in Southeast Asia, except the Philippines. Consequently, the colonial powers returned to the area and sought to re-establish dominance over their former dependencies.

They encountered unexpected difficulties. The course of the war plus certain actions of the Japanese, particularly the arming of portions of the local populace under native leadership, had so altered the situation throughout the area as to preclude a return to the *status quo ante*. Military exigencies, as well as various preconceptions and ambitions on the part of both the colonial powers and the native elements, prevented the working out of agreements on the basis of which orderly transfers of power might have taken place immediately after the Japanese surrender.

The results were disorder and embittered relations. Particularly in Indonesia and Indo-China, periods of open warfare preceded the final settlements. In Burma, nationalist conflict with the British was averted because of the conciliatory approach of the Labor Government, while the Americans'

promise to abide by their pledge of early independence was similarly responsible for a peaceful devolution in the Philippines. Even in these countries, nevertheless, attitudes became anticolonial in greater or lesser degree as many inhabitants tended to blame all their ills on their former masters while overlooking any benefits they may have received.

The net effect of the colonial period on indigenous attitudes was the creation of nationalistic feelings which were essentially antiforeign in character. These emotions operated to unify the local populations in their resistance to outside influences, but the nationalistic goals as originally formulated failed to provide positive programs for solving internal problems once independence was achieved. On the other hand, nationalism as a post-independence *credo* came to serve as the rationale for increasing centralization of political control and the imposition of restrictions on ethnic groups or regions which sought to resist this trend. In this sense, and to the degree that opposition has taken the form of overt resistance to the regime or the party in power, nationalism has served to inject an element of instability into the Southeast Asian political scene.

Internal Problems and Post-Independence Political Systems

The newly created nations were beset by problems of tremendous magnitude. Many of their difficulties sprang from the basic nature of their traditional societies as they attempted to move into the modern world. Also, as colonial areas they had been developed according to the needs of the mother countries, often to the neglect of local interests. To the deficiencies resulting from these inattentions were added those stemming from the dislocations and destruction of the war, the Japanese occupation, and the postwar fighting.

The nationalist leaders, however, rose to power on the basis of revolutionary activities rather than positive programs tailored to their countries' needs. Their nationalism was "notoriously deficient in definitive political content."[2] It stressed general ideals and glorification of traditional culture patterns. The very success of the revolutions, nevertheless, confronted Southeast Asians with the necessity of translating ideals into concrete systems capable of dealing with the accumulated problems.

Notably, in view of the difficulties experienced under Western rule and nationalist emphasis on indigenous culture, the governments inaugurated throughout the region were modelled along Western lines. The intellectual elites which sparked the independence movements were highly educated

[2] John F. Cady, "Evolving Political Institutions in Southeast Asia," in *Nationalism and Progress in Free Asia*, ed. Philip W. Thayer (Baltimore, 1956), p. 117.

men, most of whom had attended Occidental schools. Many of them had spent periods of time in the West and were as familiar with Occidental as with Oriental philosophies. All were impressed with Western techniques. It is scarcely surprising, therefore, that they should seek to institute liberal institutions patterned after those with which they were familiar and which had proved successful in Europe and the United States.

Equally understandable is their preference for government-controlled economies—their experience with capitalism during the period of colonialism had equated it firmly in their minds with exploitation and denial of the right of self-government. Moreover, the available private capital was insufficient for rapid industrialization and economic and social development.

Since the time of their inauguration most Southeast Asian regimes have been in trouble. Despite advances in some fields, the range of their difficulties is widespread, embracing psychological attitudes as well as tangible social, economic, and political problems. Although, as Professor Rupert Emerson has pointed out,[3] the precise conditions under which representative institutions will thrive cannot be stated definitively, it is possible to discern several factors that have contributed to the overall political instability and thus made it more difficult to improve economic and social conditions.

One feature which has militated against the newly created systems is the fact that parliamentary democracy is of alien rather than indigenous origin. Despite some contentions to the contrary, it can hardly be argued that traditional Southeast Asian political arrangements partook of Western democratic values or procedures. At the upper levels the old order was absolute monarchy—often a God-king. The villages followed a communal pattern under a council of elders or a headman. Although they often enjoyed considerable autonomy and provided security for members of their component families and clans, one may question whether the local governments furnished opportunities for education in self-government or whether the localities now constitute a wellspring of democratic support for the central organizations. In fact, it is more likely that a considerable gulf exists between the central and the local governments, as well as between the Western-educated leaders and the mass of their constituents.[4]

A collateral aspect has been the scarcity of personnel capable of administering a modern governmental establishment. Prior to liberation the number of native inhabitants who received an education was pitifully small. In some areas, Indonesia for example, less than 10 per cent of the populace

[3] Rupert Emerson, *Representative Government in Southeast Asia* (Cambridge, 1955), p. 6.

[4] For discussion, see Emerson, *op. cit.*, ch. 7.

were literate.[5] The percentage receiving advanced training was even smaller, while opportunities for gaining practical experience were almost nil, particularly in the French and the Dutch possessions.[6]

Since the achievement of independence, remarkable progress has been made in the field of education in some places. In the Philippines, Thailand, Indonesia, and Malaya-Singapore from 54 to 90 per cent of the people are now literate. As late as 1956, however, only 35 per cent of the people of Burma could read or write, while in the countries derived from the former French Indo-China the proportion was 15 to 20 per cent.[7] On the whole, the demand for trained personnel has risen because of the efforts to industrialize and because of the turn toward socialized economies. Lack of sufficiently educated people continues to be a serious handicap to the adequate functioning of Southeast Asian governments.

Post-Independence Problems

The tasks of running the new governments and administering the economic and social programs have been complicated by at least three major political problems: the achievement of national unity; withstanding external pressures, particularly from the Communists; and growing disenchantment with democracy as a political system.

The problems of national unity stem from the days of colonialism and are rooted in the policies pursued by the colonial powers. Fundamental to the matter is the fact that the Southeast Asian countries are not nation-states in the sense of being homogeneous entities from ethnic, linguistic, or cultural standpoints. Rather, they are heterogeneous groupings which were lumped together by the colonial powers largely for economic or administrative purposes. They were governed partially by central administrations and partially by native princes who ruled under the protective eye of the colonial power. At times rivalries were encouraged to prevent the formation of native oppositional blocs.

These disparate elements found common cause in the various nationalistic movements. To be effective, nationalism had to speak with one voice, so no effort was spared to bring all factions into a single alignment. Thus, for example, the Burmese Anti-Fascist People's Freedom League cooperated with both Buddhists and Communists, while the Nationalist Party of Indo-

[5] In 1940, Indonesian high schools graduated only 240 native students, while the colleges graduated only 37. Emerson, *op. cit.*, p. 20.

[6] Out of a total of 3,039 upper civil service positions in Indonesia, natives held 221 in 1940. George McT. Kahin, "Indonesia," in *Major Governments of Asia*, ed. George McT. Kahin (Ithaca, 1958), p. 491.

[7] Evron M. Kirkpatrick (ed.), *Years of Crisis* (New York, 1957), ch. VI.

nesia (PNI) was able to work with both Moslems and Communists. In Indo-China Ho Chi Minh was an outstanding nationalist, as well as being a Communist leader.

The cement which held these parties together was their common opposition to the colonial power. After independence the bonds were loosened, and natural antagonisms reasserted themselves. Following lines partly religious (Christian Karens versus Buddhist Burmans), partly racial (Chinese versus Malays), partly traditional and geographic (the Outer Islands versus Java; and Mons, Karens, and so forth versus Burmese), the nationalist parties split into competitive, and often warring, factions. In Vietnam the basic alignment came to be Communist versus non-Communist, with the latter facing additional opposition from religious groups such as the Cao Dai and the Hoa Hao.

Peaceful resolution of the differences among these groups has proved impossible in most cases. In Burma in particular, as well as in Vietnam, the years following emancipation were spent in bloody fighting as the governments slowly asserted their ascendancy and gained control of their territory. In Indonesia, "Outer Island" revolutions against the "unitary movement" engaged the attention of the central authorities up to the end of 1958 and were at least partially responsible for the increasingly severe restrictions of "guided democracy."

Throughout the area unity now seems to have been achieved, but often by means of suppression rather than as the positive outgrowth of a sense of devotion to the state. The strength of these unions remains a speculative question.

An accompanying source of trouble has been the pressures exerted by the Communists, particularly in regions abutting directly on Red China. The most spectacular Communist success, of course, has come in Vietnam where, as the result of a long and bloody civil war, they succeeded in establishing a "democratic republic" north of the seventeenth parallel. In Burma and Malaya, as well as in other places, the Communists have also tried to take over by direct means, only to be defeated, usually after long and costly military operations.

For five years after the signing of the Geneva Armistice of 1954 the Communists made no overt military moves in Southeast Asia, except for the slowly diminishing guerrilla warfare in Malaya. Nonetheless, Communist pressures remained a principal cause of political instability. In Vietnam the northern Democratic Republic of Vietnam (Vietminh) sought to engage the loyalties of all Vietnamese in the name of anti-imperialism, while serving as a springboard for operations aimed at Laos and Cambodia. In other

areas, particularly in Malaya and Indonesia, the Chinese Communists made strong appeals to the millions of "overseas Chinese."[8] Within each locality native Communists continued to organize and to agitate among the students, the workers, and the peasants. Though their successes can hardly be gauged, their activities have sown seeds of discord throughout this section of the world.

In the summer of 1959 a new element was injected into the Southeast Asian scene with the suppression of the Tibetan revolt and Chinese operations against portions of Indian territory. Concurrently the Red Pathet Lao mounted an offensive within the Kingdom of Laos. American authorities asserted that the Laotian offensive was backed by the Vietminh; however, a United Nations inspection team denied the fact of outside intervention. Although the precise implications of these moves cannot be assessed at present, they have clearly served to introduce yet another element of uncertainty into Southeast Asian politics.

A third difficulty in achieving political stability has been a growing disenchantment with representative democracy within the several countries. The travails of the past few years and the meager results of their exertions have caused one nation after another to abandon the practices of democracy, and sometimes even the forms. For Indonesia, President Sukarno has prescribed "guided democracy," abolished parliamentary institutions, and decreed a return to the Constitution of 1945, which concentrates power in the hands of the chief executive. Burma spent eighteen months—October, 1958, to April, 1960—under a military "caretaker" government. Thailand has been clearly under the control of the military since the *coup* of 1957, while Laos announced a military take-over on December 31, 1959. Professor Werner Levi claims that only India, and perhaps the Philippines, "remains the showcase for parliamentary democracy" in all of Southern Asia, with doubts and dissatisfactions persisting even there.[9]

The reasons for the decline of democracy in Southeast Asia are various. Fundamental is the fact that it is an alien system, as already discussed, and thus lacks tradition and popular support. Moreover, according to Professor

[8] In Malaya the cooperative efforts of the United Malays' National Organization, the Malayan Chinese Association, and the Malayan Indian Congress have served to thwart Chinese Communist designs outside of Singapore. The Federation of Malaya has been reluctant to amalgamate with Singapore, in part at least, because of the relatively greater degree of success of the Communists in influencing Singapore's Chinese majority.

In Indonesia the resident Chinese are the subject of grave dispute between the governments at Djakarta and Peiping, with the Indonesians moving to oust the Chinese from their commanding position in the national economy.

[9] Werner Levi, "The Fate of Democracy in South and Southeast Asia," *Far Eastern Survey*, Vol. XXCIII, No. 2 (February, 1959).

Levi, many of its hitherto supporters—intellectuals and leaders in numerous places—appear to be losing their faith in its appropriateness for their countries.

Actually, few Southeast Asian governments have been truly representative or responsible. Serious lags have existed in the realm of accountability, partly because of corrupt electoral practices, and partly because of inadequate understanding of the democratic process. The basic mechanism of democracy, that of elections, has been widely used, but too often without proper safeguards as to procedures. Understanding of the issues has been minimal, and few meaningful alternatives have been presented.

Especially unfortunate has been the failure to foster a "loyal opposition." The political parties, which should furnish a choice of programs and constitute a responsible link between the electorate and their officials, have been characteristically used by political leaders for their own purposes. Such parties have failed to develop essential mass support.

Where parties have identified themselves with popular causes they have too often appealed to traditional prejudices and passions, developing rigid positions which admit of no compromise. Such may have been inevitable because of the depth of the ideological and religious splits within the communities, but the consequences have been disillusion, separatism, and instability. To maintain themselves governments have been forced to repress opposition, usually in conjunction with the military. The oppositional parties, in turn, have sought to undermine the governments in any way possible. The effect of these policies on political stability, to say nothing of democratic institutions and procedures, has been dire indeed.

Conclusion

The countries of Southeast Asia are in transition. From Rangoon to Djakarta and Manila gigantic forces are competing for the loyalties of the millions of people who inhabit this section of the globe. The outcome is far from certain.

The new states have moved from colonial status to independence in an extremely short period of time. This development, rather than representing the culmination of political development, denotes a new departure in nearly all cases. The swiftness of the change has inevitably brought in its wake unrest and instability as new political forms and programs have been devised and contending interests have clashed.

Institutions and programs, and the struggles revolving around them, however, are surface manifestations. They are but reflections of a deeper battle which is wracking these age-old communities. The fundamental contention throughout Southeast Asia lies between the old and the new—tra-

ditionalism versus modernism. The revolutions which started with the aim of overturning the colonial regimes have broadened their objectives with a view to reshaping the entire traditional milieu. To achieve this conversion will be infinitely more arduous than casting off European imperial domination.

The struggle between tradition and progress is complicated, but not obviated, by the competition between Communism and democracy. Both of the latter are manifestations of modernism derived from Western philosophies and practices. Both draw prestige from successful application in essentially Western contexts, insufficient time having elapsed to assess developments in either Red China or India.

We often assume that weaknesses in Communism imply strength for democracy, and vice versa. This strikes me as a vast oversimplification. Whatever advantages either has over the other in seeking support of Southeast Asians stem less from their relative power positions in world politics, or even from their comparative theoretical merits or demerits, than from their promise of meeting pressing social and economic needs while responding, at least in some degree, to traditional beliefs and mores. In relation to the contest between custom and modernity both forms of government appear as alternative approaches to the problem of modernization.

But, Communism and democracy are not the only alternatives. If modernism should come—and it appears that it will—the precise forms can scarcely be predicted. While they may borrow from the West, Southeast Asians will hardly feel constrained to remain within the limits of Western prescriptions, whether democratic or Communist, unless they are again the victims of conquest. The ultimate determinations will undoubtedly be made in the light of indigenous environments, and the systems which will evolve may be neither Communist nor democratic in the Western sense. Rather, they will reflect the milieu from which they spring with such innovations as may be necessary to produce the desired modernization.

Political instability is the price of the movements toward independence and modernity. Stability will be achieved only with the synthesis of traditionalism and modernism as the basis of acceptable political, economic, and social arrangements.

State Legislation and Railroads of the Gulf Southwest[1]

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THE REGION WEST OF THE MISSISSIPPI RIVER that is tributary to the Gulf of Mexico furnishes an excellent cross section for studying the course of state railroad legislation in the entire trans-Mississippi West. It includes areas with fine systems of waterways and others with no natural means of transportation; areas of relatively early settlement, and those with no population until rails made occupation possible. Then, too, this region ties railroad building into the national scene during the Reconstruction period, since three of the Gulf Southwestern states seceded, one remained loyal, and the fifth achieved statehood as the union was dissolving.

Agitation for railroads occurred first along the Mississippi and the Gulf, since the back-country had little or no population. All of the early projects—whether designed to reach westward to the Pacific or southward to the Gulf, or merely to penetrate local trade territories—had the one common problem of attracting capital with which to build. Prior to 1850, however, only Louisiana embarked on a public aid program. Beginning in 1833, with a grant to the Alexandria and Cheneyville Railroad, Louisiana's railroad debt reached $500,000 within five years. The amount would have been greater had not Governor André B. Roman vetoed several internal improvement bills because no provision had been made for retirement of the bonds. The delayed impact of the depression of 1837 on Louisiana finances led to a constitutional prohibition of state aid after 1845.[2]

[1] The term "Gulf Southwest" is used in this paper to denote the region between the Mississippi River and the western border of Texas and Kansas, and lying south of the Missouri, the Kansas, and the Smoky Hill rivers. These boundaries are not entirely arbitrary, because traffic from this area tends to flow to the Gulf ports of Texas and Louisiana. In the heart of this region lay the Indian Territory, which followed a policy contrasting sharply with that of the states. Although there were wide differences of opinion within that Territory, most of the political leaders among the Five Civilized Tribes were uncompromisingly opposed to railroad penetration, viewing the entrance of railroads as an opening wedge for white intrusion which would threaten their tribal existence. The story of Indian Territory is, therefore, one of resistance to measures designed to permit the entrance of railroads in violation of the prewar treaties with the several Indian nations.

[2] Walter Prichard (ed.), "A Forgotten Louisiana Engineer: G. W. R. Bayley and His

Missouri and Texas were, at first, more concerned with legislative restrictions on "monied monopoly" than with extending state assistance. The primary issue in Missouri was general incorporation as opposed to special charters. "Hard" Democrats wished restrictive legislative charters for all corporations, while "soft" Democrats and Whigs agitated for general incorporation laws. Periods of "hard" Democratic supremacy were marked by a general tightening of charters—fewer charters and less liberal terms.[3] The Republic of Texas struggled with the abortive Texas Railroad, Navigation & Banking Company which, although asking for no public aid, was bitterly attacked for attempting to place the Republic in economic bondage. Within a few years after its union with the United States, however, Texas granted charters to nine railroad enterprises. Of these, the Galveston & Red River, the Buffalo Bayou, Brazos & Colorado, and the San Antonio & Mexican Gulf eventually operated.[4]

Arkansas' shaky credit structure denied that state any early railroad aspirations; although it did, in a spirit of hope, grant three railroad charters, but all lapsed.[5]

The tempo of state interest quickened in the Gulf Southwest through the fifties. Missouri's program was by far the most ambitious. Beginning in 1851 with loans to two railroads, the state extended its credit until, by 1859, seven railroads had received in excess of $23,000,000. The legislature also authorized county courts and city councils to subscribe to railroad stock. The program became increasingly speculative until the Panic of 1857, by depressing state bonds, caused a reaction against public aid. The last serious attempt to give direct state assistance ended with a gubernatorial veto in 1860.[6]

'History of the Railroads of Louisiana.' " *Louisiana Historical Quarterly*, Vol. XXX (1947), pp. 1127–1128; *Ninth Census of the United States*, Vol. VII, p. 528; Alcée Fortier, *A History of Louisiana* (4 vols., New York, 1904), Vol. III, pp. 230, 232; William O. Scroggs, "The State Finances of Louisiana," *The South in the Building of the Nation* (James Curtis Ballagh, ed.) (12 vols., Richmond, 1909), Vol. V, pp. 517–518; Constitution of Louisiana (1845), Art. 113.

[3] James Neal Primm, *Economic Policy in the Development of a Western State: Missouri, 1820–1860* (Cambridge, 1954), pp. 36–38, 47–48, 53–58, 77–96; Simon F. Kropp, "The Struggle for Limited Liability and General Incorporation Laws in Missouri" (M.A. thesis, University of Missouri, 1939), pp. 19–22, 48–74, 98–100; John W. Million, *State Aid to Railroads in Missouri* (Chicago, 1896), pp. 37–43.

[4] S. G. Reed, *A History of the Texas Railroads* (Houston, 1941), pp. 10–21, 30–38, 50–52, 65–66, 122; Andrew Forrest Muir, "Railroad Enterprises in Texas, 1836–1841," *Southwestern Historical Quarterly*, Vol. XLVII (1944), pp. 339–370.

[5] *Acts of Arkansas, 1837–38*, pp. 50, 65, 86.

[6] The most complete accounts of Missouri aid are Million, *op. cit.*, and Edwin Lee Lopata, *Local Aid to Railroads in Missouri* (New York, 1937). The most recent, a tightly knit monograph dealing with state economic policy, is Primm, *op. cit.* Although not entirely accurate, the Interstate Commerce Commission *Valuation Reports* remain the best source for

Louisiana relaxed its stringent restrictions when the new Constitution of 1852 gave the legislature power to subscribe up to twenty per cent of the paid-up capital of internal improvement companies.[7] Subsequently, this provision was interpreted as mandatory on the legislature to assist all such corporations operating under special charters, and an act of 1857 provided for an internal improvement tax to pay the interest on these bonds. Of the four railroads which benefited from this legislation, three were designed to reach Texas and were potential links in a Pacific railroad.[8] The legislature also provided that parishes and municipalities could subscribe to railroad stock, a right soon exercised by New Orleans and several parishes to encourage construction of the New Orleans, Opelousas & Great Western.[9]

In 1855 the Arkansas legislature approved subscriptions to railroad stock by those counties which had made provision for internal improvement funds. Three years later it directed the governor to subscribe to the stock of a struggling railroad, the Mississippi River, Ouachita & Red River, and granted specifically to the city of Little Rock and to Pulaski County the right to give local railroad aid.[10] On the eve of the Civil War, Arkansas donated the proceeds from the sale of swampland to three railroads, and loaned $100,000 from its Five Per Cent Fund to another. Since Arkansas had no money in its Five Per Cent Fund at this time, the loan ultimately came out of the state's General Fund.[11]

Increased interest in the Pacific railroad project spurred Texas into action. One legislative resolution in 1850 promised aid to any group which would undertake the building of a railroad across Texas and on to the Pacific; another permitted certain interior cities and counties to subscribe up to $50,000 each to the San Antonio and Mexican Gulf Railroad. In 1856 the city of Houston secured authorization to subscribe $100,000 to the Houston Tap.[12]

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grants to specific railroads, and *Ninth Census of the United States*, Vol. VII, pp. 534–539, lists specific railroad aid. Carter Goodrich, "Local Government Planning of Internal Improvements," *Political Science Quarterly*, Vol. LXVI (1951), pp. 414–425, is a most useful summary of state law authorizing local aid. In addition to direct financial aid to railroads, states donated parcels of land which they had received from the federal government under various acts. Matthias P. Orfield, *Federal Land Grants to the States, with Special Reference to Minnesota* (Minneapolis, 1915), pp. 100–102, 112–119; Lewis Henry Haney, *A Congressional History of the Railroads of the United States to 1850* (Madison, 1908), p. 361.

[7] Constitution of Louisiana (1852), Art. 109.

[8] *Poor's Manual of Railroads, 1878* (New York, 1878), pp. 994, 1000; Balthasar H. Meyer, *History of Transportation in the United States before 1860* (Washington, 1917), pp. 478–479; Frederick A. Cleveland and Fred Wilbur Powell, *Railroad Promotion and Capitalization* (New York, 1909), pp. 214–215; Million, *op. cit.*, p. 213.

[9] Goodrich, "Local Government Planning . . . ," *op. cit.*, p. 423; Interstate Commerce Commission, *Valuation Reports*, Vol. XXXVI, pp. 663, 695–697.

[10] Goodrich, "Local Government Planning . . . ," *op. cit.*, p. 423; *Acts of Arkansas, 1858–59*, pp. 57, 125.

[11] Cleveland and Powell, *op. cit.*, pp. 217, 226.

[12] Reed, *op. cit.*, pp. 8, 97–98, 131–132.

Since Texas retained possession of its own public lands, it used them to encourage railroad construction. In 1852, Texas began granting lands to specific railroads, normally at the rate of eight alternate sections per mile but with some variations, the charter of the short-lived Mississippi & Pacific Railroad calling for 20 alternate sections per mile. Two years later a general land-grant act provided that any railroad would be entitled to 16 alternate sections per mile of construction, to be made available as it completed each twenty-five miles. In 1856 the charter of the Memphis, El Paso & Pacific was amended to permit the granting of 160 sections of land for every five miles of grading, in terms which made the act applicable to all railroads.[13] Texas inaugurated a novel, and successful, type of aid in 1856, under which operating railroads wishing to continue construction could borrow up to $6,000 per mile from the state's Special School Fund. The state loaned more than $1,800,000 of this fund to six railroads, at 6 per cent interest, and recovered practically all the principal and interest.[14]

All the existing states in the Gulf Southwest had experimented with state and local aid prior to the Civil War. There is a decided correlation between railroad mileage and the amount of assistance which each state granted, even though variations in their wealth, population, and maturity dictate considerable caution in generalizing. Missouri, with the most ambitious aid program, had eight hundred miles of operating railroad—a much greater mileage than the others combined. Louisiana and Texas, each with moderate programs, had 335 and 307 miles, respectively. Arkansas, with its sketchy aid, had only 38 miles of equally sketchy railroad.[15]

The Postwar Period

The heyday of state aid came in the early postwar years. During the Reconstruction period a spectacular increase in railroad mileage occurred. The story of railroad legislation under Radical Reconstruction is sometimes dismissed with a cursory survey of the more flagrant cases of bribery and corruption; however, a more realistic picture emerges when the late Confederate states are considered alongside other states with underdeveloped rail net-

[13] *Ibid.*, pp. 50, 57–59, 93, 98–100, 130–131, 140–146, 183–185. Reed, at pp. 155–160, has a table of all land grants and forfeitures in Texas, and at pp. 145–146, the number of acres granted, and the miles of railroad operating and grading in the years 1856–1861 as a result of the land grants.

[14] *Ibid.*, pp. 136–139, 258. The Special School Fund was set aside out of the $10,000,000 which the United States paid to Texas in 1850 for relinquishing its claims to lands lying north of 36° 30′ and from 103° west to the Rio Grande River.

[15] Association of American Railroads, *A Chronology of American Railroads* (Washington, 1957), p. 7.

works. In speaking generally of the West of this period, James Ford Rhodes commented that "cities, townships, and counties were recklessly employing their credit to further the railroad projects of energetic and unscrupulous men."[16] In all five of the Gulf Southwestern states the postwar years opened with generous public aid, followed by a reaction against such aid. Within this general framework, however, there was a wide divergence, each state pursuing its unique course.[17]

Louisiana and Arkansas suffered from corrupt railroad legislation. There is ample evidence that fraud attended the passage of railroad aid bills; there is also evidence that the moderately Conservative as well as the Radical press approved these subsidies.[18] Between 1868 and 1872, the Louisiana legislature passed thirteen railroad measures, twelve calling for the state's endorsement of railroad bonds (in most cases at $12,500 per mile), and the other authorizing the state to exchange $2,500,000 of its bonds for second-mortgage bonds of the New Orleans, Baton Rouge & Vicksburg. After 1872, the only measures granting aid were local in nature. Meanwhile, in 1870, a constitutional amendment limited the state's indebtedness to $25,000,000, a limit reduced to $15,000,000 within four years. A revulsion against excessive expenditures had, therefore, taken place under the Radicals. Two years before the Conservatives returned to power, Louisiana began to fund its "valid debt" at sixty cents on the dollar. After the Conservative restoration, the General Assembly in 1878 voted to lend the state's credit in the amount of $2,000,000 to the Texas & Pacific, a measure of doubtful constitutionality which Governor Francis T. Nicholls reluctantly signed "in deference to the large majority" by which it passed. When the bonds were presented to the governor for his signature, however, he refused to sign.[19] The Constitution

[16] *History of the United States from the Compromise of 1850* (7 vols., New York, 1892–1918), Vol. III, p. 77.

[17] One of the most penetrating studies of railroad assistance in the Reconstruction South is Carter Goodrich, "Public Aid to Railroads in the Reconstruction South," *Political Science Quarterly*, Vol. LXXI (1956), pp. 407–442, an analysis of state aid demonstrating the wide variation among the Southern states. While implying that corruptness in granting public aid was not peculiar to the South, he does not compare the South with other sections.

In addition to the direct financial aid from the states, which is the subject of this paper, the following lands were certified or patented by the federal government to states in aid to railroad construction: Louisiana—1,072,406 acres; Arkansas—2,517,718 acres; Kansas—4,638,170 acres; Missouri—1,395,429 acres. This was in addition to the grants made to specific railroad corporations, and all represent the activities of Congressmen from the interested states.—Lewis Henry Haney, *A Congressional History of Railroads, 1850–1887* (Madison, 1910), p. 13. "Transportation, Statistics of Railroads," *Tenth Census of the United States*, pp. 566–569, has in tabular form the total number of acres granted by both state and federal governments to each railroad.

[18] Walter L. Fleming, *The Sequel to Appomattox* (New Haven, 1919), p. 235; Goodrich, "Public Aid to Railroads . . . ," *op. cit.*, pp. 425–426, 433–434.

[19] Cleveland and Powell, *op. cit.*, pp. 215, 221; Million, *op. cit.*, pp. 212–214; Goodrich,

of 1879 prohibited both the state and local units from pledging public credit, or from subscribing to the stock of any company.[20] The following year, however, the legislature granted towns, cities, and parishes the right to levy bonus taxes in aid of railroads, if such bonus taxes were initiated on petition of one third of the voters, and ratified by a majority of the taxpayers, both in total number and tax value.[21]

Railroad promotion in Arkansas was highly speculative and, apparently, was accompanied by wholesale fraud at both the state and local levels. Before the establishment of Radical control, the legislature had acted favorably on six local aid bills, and had passed over the veto of Provisional Governor Isaac Murphy another measure which authorized the state to make loans of $10,000 for each mile of new railroad construction.[22] The Radical government modified the terms of the state aid by requiring that the loans be approved at a general election and that they be limited to a maximum of 850 miles; at the same time, the Radicals increased the amount to $15,000 per mile for those railroads which had never received land grants. Skeptical of the legality of their actions, proponents of this legislation remedied the situation obliquely by securing in the Constitution of 1868 a provision that the credit of the state should never be loaned except by the consent of the people as expressed in a popular election. Under this law, for which at least one Conservative newspaper gave primary credit to the pre-Radical legislature, Arkansas loaned $5,350,000 to many small companies, all of which in time consolidated into five major roads.[23] Local areas participated under existing legislation and a liberalized law of 1873.[24] The first conservative legislature repealed the aid measures, and the Constitution of 1874 forbade both state and local aid.[25] Arkansas subsequently repudiated much of its railroad debt as the creation of "alien adventurers."[26]

"Public Aid to Railroads . . . ," *op. cit.*, pp. 410–413, 433–434; William A. Scott, *The Repudiation of State Debts* (New York, 1893), pp. 107–119, 215–217, 276–278; Prichard, *op. cit.*, pp. 1170–1179, 1192–1209, 1213–1325 *passim; Ninth Census of the United States*, Vol. VII, pp. 598–600.

[20] Constitution of Louisiana (1879), Arts. 14, 46, 56, 205.

[21] Goodrich, "Local Government Planning . . . ," *op. cit.*, pp. 421–425.

[22] Goodrich, "Public Aid to Railroads . . . ," *op. cit.*, pp. 410–413, 425–426.

[23] Samuel W. Moore, "State Supervision of Railroad Transportation in Arkansas," Arkansas Historical Association *Publications*, Vol. III (1911), pp. 13–14, 17–20; Thomas S. Staples, *Reconstruction in Arkansas, 1866–1874* (New York, 1923), pp. 350–356; Charles Nordhoff, *The Cotton States in the Spring and Summer of 1875* (New York, 1875), pp. 30, 32–33; 51 Congress, 2 session, *House Executive Document* No. 6, part 2, p. 46; Fay Hempstead, "Arkansas from 1861 to 1909," *The South in the Building of the Nation*, Vol. III, pp. 323–324.

[24] Goodrich, "Public Aid to Railroads . . . ," *op. cit.*, pp. 410–413, 425–426.

[25] *Ibid.*, p. 412; Constitution of Arkansas (1874), Art. 5, sec. 33, and Art. 12, secs. 5 and 7.

[26] *Poor's Manual, 1876–1877*, p. 886; Scott, *op. cit.*, pp. 119–127, 215–217, 276.

Before the assumption of power by the Radical government, Texas adopted a constitutional provision permitting the legislature to guarantee railroad bonds to a maximum of $15,000 per mile for those railroads which had finished grading not less than five miles.[27] The legislature also revived the land-grant policy, and passed a general local aid bill giving counties, cities, and towns the right to subscribe to stock or make loans to railroads.[28]

The Radical Constitution of 1869 forbade the granting of public lands to railroads.[29] To provide for four railroads which had been organized before the adoption of this constitution, and for two claiming under an earlier act, relief measures of 1870 and 1871 substituted state aid at the rate of $10,000 per mile. Passed amidst charges of gross fraud, and over the veto of Radical Governor Edmund J. Davis, these acts drew political support from both Radical and Conservative camps.[30] A general aid bill of 1871 liberalized provisions for local assistance, under the terms of which twelve cities and counties subscribed in excess of $1,100,000.[31]

With the restoration of Conservative control, a constitutional amendment reinstituted land grants, with a maximum limitation of 20 alternate sections of land for each mile of construction.[32] At first the grants were made to individual railroads, but in 1876 the legislature made the policy general. The state displayed such generosity that by 1882 it had given away some 8,000,000 acres in excess of the amount of land available. Under these circumstances, the land-grant act was repealed.[33] Meanwhile, the Constitution of 1876 denied to the legislature and to all subordinate political units the power to lend credit or grant money to any corporation.[34]

Sobered by its unhappy experiences with its aid program of the fifties, Missouri drafted a constitution in 1865 which prohibited the use of the state's credit, but left local aid to legislative discretion.[35] The General Assembly exercised its constitutional privilege in 1868 and again in 1870 by passing general local aid measures, requiring, however, that such aid be

[27] Constitution of Texas (1866), Art. 7, sec. 36.

[28] Goodrich, "Local Government Planning . . . ," *op. cit.*, p. 423.

[29] Constitution of Texas (1869), Art. 10, sec. 6.

[30] Reed, *op. cit.*, pp. 150–152, 314, 358–360; Goodrich, "Public Aid to Railroads . . . ," *op. cit.*, pp. 414–415. The Houston & Texas Central, the Galveston, Harrisburg & San Antonio, the Southern Pacific (not the present Southern Pacific Lines), the Southern Transcontinental, the International, and the Houston & Great Northern were the beneficiaries. These bonds were all contested, and were finally replaced by land grants following the state's return to a land-grant policy. The International & Great Northern (representing a consolidation of the International and the Houston & Great Northern) was also exempted from taxation.

[31] Reed, *op. cit.*, pp. 123–124.

[32] Constitution of Texas (1869), Amendment 1.

[33] Reed, *op. cit.*, pp. 152–157, 237–238; Goodrich, "Public Aid to Railroads . . . ," *op. cit.*, pp. 410–413.

[34] Constitution of Texas (1876), Art. 3, secs. 45–46.

[35] Constitution of Missouri (1865), Art. 11, sec. 13.

approved by two thirds of the voters of the political unit involved. Certain local officials were given rather wide discretionary power in the issuance of such railroad bonds. Controversy over this type of aid gave rise to a number of incidents, the most celebrated of which was the so-called Gunn City Massacre, in which irate residents of Cass County killed three county officials who were accused of attempting to issue railroad bonds fraudulently.[36] The Constitution of 1875 terminated all public assistance to corporations.[37]

From the days of earliest settlement, Kansans had enthusiastically supported railroad projects. The constitution under which they entered the Union in 1861, however, forbade direct state aid,[38] a reflection of one lesson learned from their neighbors. At the state level, therefore, the only assistance came in the stormy legislative session of 1866, which divided the entire 500,000 acres of state land equally among four railroads.[39] The constitutional prohibition did not extend to subordinate political units, however, and a series of general local aid laws between 1865 and 1875 opened the way for counties, cities, towns, townships, and villages to assist in almost any manner they desired so long as the voters approved.[40] This limitation did not serve as a deterrent to communities hungry for railroads and determined to outbid their rivals. The result was a lavish outpouring of local aid.[41] A mild reaction against this prodigality resulted in a constitutional provision in 1876 limiting local bond issues to those requested by 40 per cent of the qualified voters of the political unit, and subsequent approval by the majority of the qualified voters in the next general election.[42]

What were the results of this generous assistance? By 1880, the mileage in Missouri was almost 4,000; that of Kansas, 3,400; and of Texas, 3,244. Arkansas and Louisiana had 859 and 652 miles, respectively.[43] The picture

[36] Lopata, *op. cit.*, pp. 105–107; Goodrich, "Local Government Planning . . . ," pp. 421–425. Lopata, at pp. 135–144, lists all local aid given in Missouri, and the various Interstate Commerce Commission *Valuation Reports* list the aid received by each railroad.

[37] Constitution of Missouri (1875), Art. 4, secs. 45–46.

[38] *Ninth Census of the United States*, Vol. VII, pp. 640, 649, 688.

[39] Edwin C. Manning, "The Kansas State Senate of 1865 and 1866," Kansas State Historical Society *Collections*, Vol. XI (1911), pp. 359–375.

[40] Goodrich, "Local Government Planning . . . ," *op. cit.*, pp. 421–425.

[41] Richard L. Douglas, "History of Manufactures in the Kansas District," Kansas State Historical Society *Collections*, Vol. XI (1911), pp. 103–104; Edwin O. Stene, *Railroad Commission to Corporation Commission* (Lawrence, 1945), pp. 8–9. The best sources for the study of local aid in Kansas are the Interstate Commerce Commission *Valuation Reports*, particularly those of the Atchison, Topeka & Santa Fe, the Missouri Pacific, the Missouri-Kansas-Texas, and the St. Louis-San Francisco, all of which absorbed many lines which were the recipients of local aid. *Railway World* placed the municipal railroad debt of Kansas at $13,000,000 in 1877 (*Railway World*, Vol. III [1877], p. 898), but seven years later the Kansas State Board of Railroad Commissioners placed it at only $9,500,000 (*First Annual Report* [*1883*], pp. 42–46).

[42] Stene, *op. cit.*, 95–97.

[43] Association of American Railroads, *Chronology of American Railroads*, p. 7.

in the Southwest was not strikingly different from that of the remainder of the country, because the entire nation had enjoyed rapid railroad expansion. That the public aid stimulated growth, particularly in those areas in which future revenue tonnage was problematical, is a reasonable assumption. Of the three types of public aid—federal, state, and local—it is not entirely clear which produced the greater mileage. The general financial condition of the state and its potential development, as well as immediate public aid, undoubtedly influenced the realistic promoter.[44] Missouri and Kansas, the two states which gave no aid at the state level, shared the greatest development with Texas, the one which pursued a unique land-grant policy. The present evidence indicates that land grants at one extreme and local aid at the other tended, at least in the Gulf Southwest in the immediate postwar years, to be more attractive than direct state aid.[45]

The Gulf Southwest was somewhat tardy in recognizing the growing hostility of many areas to the continuation of the federal land-grant policy. While representatives of the upper Mississippi Valley sponsored measures to terminate land grants to railroads, those from the Gulf Southwest introduced bills calling for that type of aid to encourage railroad construction. As the movement toward abolishing the policy gained momentum in the North Central States, a popularizer of Kansas was pleading: "Instead of ceasing to make land grants, Congress ought to give hereafter more land than ever before, for the reason that all along our frontier . . . the settlements have reached the borders of the timberless plains."[46] Apparently, as each state achieved a reasonably satisfactory railroad mileage and as the amount of public land in that state diminished, its spokesmen became increasingly aware of the "fallacy" of using the public lands to promote railroad building.

Similarly, after the splurge of the postwar period, the Gulf Southwest itself segmented in its attitude toward public aid and the related problem of railroad regulation. As usual, the reaction against railroads began in those

[44] An interesting commentary on the attractiveness of aid was the experience of Iowa, which, with fewer concessions and more adverse legislation, had a greater railroad mileage than any other western state. Robert E. Riegel, *The Story of the Western Railroads* (New York, 1926), pp. 62–63. Iowa railroads had, however, benefited considerably from federal land grants.

[45] Arkansas is sometimes used to illustrate the point that, in spite of the cost, state aid made possible such development as did take place. This evidence is not entirely valid, because the Cairo & Fulton, which added more mileage than any other Arkansas railroad of the period, did not participate in the distribution of state funds. Riegel, *op. cit.*, p. 56. The Cairo & Fulton did, however, have a federal land grant. There is a significant correlation between land grants and railroad mileage in the Southwest, where the federal land grant mileage, on June 30, 1886, was as follows: Arkansas—602, Kansas—1,485, Louisiana—530, Missouri—625. *Report of the General Land Office, 1928*, pp. 20–21.

[46] C. C. Hutchinson, *The Resources of Kansas* (Topeka, 1871), pp. 212–213.

areas with relatively complete networks, whereas areas without transportation continued to insist that states should offer inducements, not pose threats, to railroads. Kansas still needed feeders through the central and western portions of the state. Louisiana, originally preoccupied with transcontinental lines, became increasingly aware that railroads were siphoning off trade formerly tied to it by river traffic. Both of these states continued to give local aid. As the other states forbade the pledging of local credit or subscribing to railroads, the areas still in need of transportation were compelled to turn to private sources, such as subscriptions by individuals or citizens' committees.[47]

Kansas, in particular, was generous through the eighties. In one sixteen-month period, municipalities pledged $10,000,000 to railroads; by 1887, local aid bonds exceeded $23,000,000; by 1898, it was estimated that 80 per cent of the municipal debt of Kansas had been contracted in aid of railroads.[48] These commitments were declining drastically by 1890, but as late as 1915 the Anthony & Northwestern received considerable support.[49] Since the later lines served areas of limited economic opportunity, undoubtedly public assistance was largely responsible for their construction.

Under the terms of a general local aid act of 1880,[50] municipalities and parishes in Louisiana continued to give subsidies.[51] To further speed construction, the Louisiana Constitution of 1898 provided limited tax exemption to all railroads completing their lines prior to January 1, 1904—subsequently extended to January 1, 1909.[52]

Railroad Regulation

A reaction to the aid program of preceding decades marked the beginning

[47] The Interstate Commerce Commission *Valuation Reports*, particularly for those railroads operating in the western parts of Texas and Oklahoma, list numerous such donations.

[48] Raymond C. Miller, "The Economic Background of Populism in Kansas," *Mississippi Valley Historical Review*, Vol. XI (1925), pp. 469–489; Stene, *op. cit.*, pp. 8–9. Kansas gave additional leeway to cities when, in 1886, they were empowered to bond themselves to secure land for right of way, depots, shops, and terminal facilities.—Goodrich, "Local Government Planning . . . ," *op. cit.*, pp. 421, 425.

[49] Interstate Commerce Commission, *Reports*, Vol. XCVII, p. 531. In 1909, Kansas modified its local aid legislation by drastically reducing the debt limits and establishing rigid regulations for retiring the obligations.—John Marshall (comp.), *Kansas Railroad and Public Utilities Law* (Topeka, 1911), pp. 31–38.

[50] Goodrich, "Local Government Planning . . . ," *op. cit.*, pp. 421–425.

[51] For examples of local aid in Louisiana, see Interstate Commerce Commission, *Valuation Reports*, Vol. XXIV, pp. 751, 754, 767, 777, 831; Interstate Commerce Commission, *Reports*, Vol. LXXV, pp. 303–304; *Ibid.*, Vol. CVI, p. 54; *Ibid.*, Vol. CXLIX, p. 490.

[52] Constitution of Louisiana (1898), Art. 230, and Amendment 7 (adopted Nov. 8, 1904). Arkansas gave one final bit of state aid in 1897 when it pledged to two railroads 1,000 acres of swampland or forfeited land for each mile of railroad which each would build. Cleveland and Powell, *op. cit.*, p. 229.

of a second phase of state legislative activity: regulation of the railroads. A lingering frontier suspicion of "monopoly" until this time had been more than offset by the need for transportation facilities.

The national antirailroad sentiment of the 1870's scarcely touched the Gulf Southwest. Only Missouri, with its Railroad and Warehouse Commission, followed, with restraint, the lead of the Granger states.[53] The Southwest would require a combination of factors to develop both the inclination and the ability to enact effective regulatory legislation. Representatives from districts with adequate rail transportation had to gain control of the state governments. Such representatives were more aware of railroad abuses, both real and imaginary, and tended to magnify them, particularly if their constituents were extremely dependent upon railroads. Finally, declining prices, drouth, and increasing debts and interest and taxes produced economic crises which brought matters to a head. An area predominately frontier then turned to direct action—in this case, drastic legislation—in attempting to solve its problems.[54]

Railroad regulation became a subject of considerable discussion in Kansas during the campaign of 1882. Following the election, the Republican legislature created an appointive railroad commission, but with considerably less authority than had been requested by Democratic Governor George W. Glick. The only true regulatory action it could take was to issue orders on complaint of certain local political officials. Opposition to stronger terms came from those who felt that such legislation would limit further construction. Although there was some strengthening of the commission's powers in 1886 and again in 1889, there was no real demand for increasing its authority until the early nineties.[55]

As early as 1876, Governor Richard Coke of Texas had recommended the creation of a railroad commission. This became a topic for regular legislative discussion through the eighties, and became of enough consequence that Jay Gould made several trips to the state to suggest that such action might well result in a discontinuance of railroad building in Texas.[56] The only product of the period was the creation of the post of State Engineer, one of his duties being that of inspecting railroads.[57] By 1890 Texas had reached a point where it could elect as its governor James S. Hogg, who had

[53] Interstate Commerce Commission, *Sixteenth Annual Report*, App. G, part 4, pp. 48–49, 56–57, 63. In 1839, Missouri had created a Board of Internal Improvements to supervise railroads, but it had come to an end before there were any railroads to supervise. Primm, *op. cit.*, p. 86.

[54] John D. Hicks, *The Populist Revolt* (Minneapolis, 1931), pp. 81–84.

[55] Stene, *op. cit.*, pp. 7, 11–22, 98–99.

[56] Charles S. Potts, *Railroad Transportation in Texas* (Austin, 1909), p. 115.

[57] Interstate Commerce Commission, *Sixteenth Annual Report*, App. G, part 4, pp. 34–35.

established his reputation by vigorously prosecuting railroads while serving as Attorney General of the state. As witness to the fact that the Hogg victory did not have the wholehearted support of areas lacking in railroads, came a plaintive cry from the Panhandle: "Hogg will be governor and the Rock Island won't come just now. Hurrah—for—Hogg."[58] The so-called "Hogg Amendment" to the constitution, approved by an overwhelming three-to-one majority, made it mandatory on the legislature to pass laws regulating railroad rates, abuses, and discriminations, and to establish such agencies as were necessary to carry it into effect.[59] In 1891 the legislature created a three-member commission, appointed by the governor; a constitutional amendment adopted in 1894 made it elective.[60] Despite political attacks and some limitations placed on its powers by judicial decision, the commission continued to function, but exercised its powers with restraint.[61] In 1893 Texas adopted its controversial Stock and Bond Law, a major purpose of which was to prevent inflated values that would destroy the validity of the base upon which the commission would establish the reasonableness of rates. In spite of the obviously sound purpose of preventing overcapitalization, the effect in some cases was to deny the opportunity to make improvements, and in time railroad service became both inferior and dangerous. The consequences were so serious that the measure was amended in 1901 and again in 1907 to permit even overcapitalized railroads to borrow for the purpose of purchasing needed equipment.[62]

Although Texas was the first of the Gulf Southwestern states to enact drastic regulatory legislation, Kansas represented a more extreme agrarian antagonism toward railroads. There, the conditions were ideal for extreme hostility—long-standing quarrels over railroad lands, heavy local indebtedness incurred to attract railroads, extreme dependence upon its relatively complete rail network, and economic difficulties in exaggerated form.[63] Railroad regulation was a vital issue in Kansas, and its progress attracted nationwide attention because of the close identification of that state with Populism. The attitude of the Populists toward railroads is illustrated by such frequently repeated remarks as the one of Mary Elizabeth Lease, that "Kansas suffers from two great robbers, the Santa Fe railroad and the

[58] *The Tascosa Pioneer*, Sept. 27, 1890.

[59] Constitution of Texas (1876), Art. 10, sec. 2 (Amendment of Dec. 19).

[60] *Ibid.*, Art. 16, sec. 20.

[61] Charles S. Potts, *op. cit.*, pp. 132–137, 152; Lewis Henry Haney, "Railway Regulation in Texas," *Journal of Political Economy*, Vol. XIX (1911), pp. 437–455.

[62] Charles S. Potts, *op. cit.*, pp. 140–155; Lewis Henry Haney, *op. cit.*, pp. 450–451; William Z. Ripley, *Railroads: Finance and Organization* (New York, 1915), pp. 302–306.

[63] Hallie Farmer, "The Economic Background of Populism in Kansas," *Mississippi Valley Historical Review*, Vol. X (1924), pp. 416–425.

loan companies," or that of "Sockless Jerry" Simpson, that "The struggle in this state was not between the People's Party and the Republican Party, but between the People's Party and the railroad corporations."

In 1896 the Populist-Fusion ticket gained control of both the legislative and executive branches of the state government, but found itself too divided in its objectives to enact a program. The major accomplishment of the Populists came during a special session called after the Populists had been defeated in 1898 but before the victorious Republicans had assumed control of the state government. This session replaced the weak Board of Railroad Commissioners with a unique Court of Visitation. To avoid a Supreme Court ruling that made rate-fixing basically a judicial matter, the Court of Visitation was vested with judicial rather than administrative powers, but with its jurisdiction confined specifically to railroad violators. The Supreme Court of Kansas held the Court of Visitation to be unconstitutional.[64]

In 1900 a conservative Republican legislature created a second Board of Railroad Commissioners. In an atmosphere of general acceptance, its powers were increased during the next decade until they included practically all those unsuccessfully demanded earlier by the Populists. Animosity had so subsided that Kansas could elect a prominent railroad contractor as governor early in the century.[65]

Missouri, Arkansas, and Louisiana followed less stormy paths. Missouri regulation expanded gradually, the legislature extending the powers of the existing commission in 1887 and again in 1891.[66] Arkansas had constitutional sanction for a commission after 1874, but a combination of conservative Democratic control and insufficient railroad mileage stifled action for two decades. In 1896, the state divided very limited authority over railroads among three agencies. A brief flurry of antirailroad sentiment at the end of the century probably was responsible for the consolidation of most of these functions in a railroad commission, but the state supreme court held most of its powers unconstitutional.[67] Louisiana followed a course different from that of any other state. It remained practically without railroad legislation until 1898, at which time the new constitution provided for a railroad

[64] Elizabeth N. Barr, "The Populist Uprising," *Kansas and Kansans* (William E. Connelley, ed.) (5 vols., Chicago, 1918), Vol. II, pp. 1156–1193; Stene, *op. cit.*, pp. 22–37; Interstate Commerce Commission, *Sixteenth Annual Report*, App. G, part 4, pp. 31–33, 162.

[65] Stene, *op. cit.*, pp. 38–47, 100–103; Edith Connelley Ross, "Walter Roscoe Stubbs," *Kansas and Kansans*, Vol. II, p. 857; Interstate Commerce Commission, *Sixteenth Annual Report*, App. G, part 4, pp. 66–67, 70–71, 80–81, 92–93.

[66] Interstate Commerce Commission, *Sixteenth Annual Report*, App. G, part 4, pp. 48–49, 56–57, 63.

[67] *Ibid.*, pp. 46–47, 54–55, 66–67, 70–71, 76–77, 92–93, 98–99, 102–103, 106–107, 160; John Gould Fletcher, *Arkansas* (Chapel Hill, 1947), p. 288.

commission but with very limited powers. Not until 1902 did it assign mandatory duties to the commission.[68]

Although the Gulf Southwest generally did not question the need for regulation toward the end of the nineteenth century, it was somewhat less sure of exactly what needed regulating. Certainly states should control those matters which had been the subject of much popular discussion—rates and fares, discrimination, stock-watering, consolidation of competing carriers, railroad interference in politics. Few individuals, however, realized the complexity of these problems, or were even aware of the maze of related problems which were equally fundamental. As a consequence, excepting the moderately comprehensive code of Texas, regulatory legislation in the Gulf Southwest was incomplete as compared to that of other sections of the nation. However, the punishment for violation of the regulations that did exist was severe. Those abuses which had been noted aroused much hostility, and the penalties were punitive as well as regulatory, the natural outgrowth of a frontier environment. Within the Southwest, Louisiana varied from the other states by ignoring almost entirely the subject of regulation, but Louisiana was retarded in railroad building and was still trying to attract capital.[69]

Summary

Except for certain limited areas, the Gulf Southwest had its network by about 1910. Railroads were not the accomplishment of unaided private capital, but represented tremendous public effort as well. The history of state railroad legislation divides into two distinct periods: the first, one of invitation and extravagant encouragement to railroad promoters; the second, a

[68] Interstate Commerce Commission, *Sixteenth Annual Report,* App. G, part 4, pp. 29, 48–49, 56–57, 62, 68–71, 82–83, 92–93, 98–109; Constitution of Louisiana (1898), Art. 283; Nat. B. Knight, Jr., "The Louisiana Public Service Commission," *Tulane Law Review*, Vol. XVI (1941), pp. 1–26; Maxwell Ferguson, *State Railroad Regulation in the South* (New York, 1916), pp. 180–184.

The final step in the evolution of railroad commissions was the extension of their regulatory powers to other public utilities. In all the Southwestern states except Texas, the name of the agency was changed to indicate the change in the nature of its activities.

[69] The generalizations in this section are based on an analysis of Interstate Commerce Commission, *Sixteenth Annual Report,* App. G, part 4, pp. 23, 27, 30, 120–418. In Texas, the first railroad charters contained regulatory provisions. In 1853, while the first two Texas railroads were under construction, but before either was operating, Texas adopted a code of regulation. Due to the fraudulent issuance of stock by the highly speculative San Antonio & Mexican Gulf Railroad, in 1857 Texas established certain minimum standards for issuing railroad securities.—Reed, *op. cit.*, pp. 119–121; S. S. McKay, "Texas and the Southern Pacific Railroad, 1848–1860," *Southwestern Historical Quarterly*, Vol. XXXV (1931), pp. 5–6.

reaction when it became apparent that the new transportation brought problems with its blessings. This pattern of legislation evolved in the Gulf Southwest, as it did in other areas—only later. In the region itself, progress was uneven among the states and within the borders of each state.

The period of invitation—interrupted by the Civil War—largely came to an end in the mid-seventies. At first depending upon mixed federal and state aid, the states were compelled to assume more responsibility after the federal government terminated its land grant policy. The fewer the natural means of transportation within a state, the more intense were its efforts to attract railroads. As the more fortunate areas achieved networks, they began to question the wisdom of state aid. Gradually they shifted more of the load to counties, townships, and municipalities, which carried railroads westward until such time as state legislatures set up restrictions to protect local political units from their own generosity. Generally speaking, federal land grants and, when properly safeguarded, local aid seem to have produced greater returns than did direct state assistance. This does not hold true in Missouri, however, where state aid in the prewar years did result in railroads, nor in Texas, where conditions were unique. Radical Reconstruction cuts sharply across the story of public aid to railroads. While there is little doubt that there was more opportunity for fraud in areas under Radical control, neither speculative enterprises nor questionable practices were peculiar to the states under such regimes; furthermore the extreme speculation and corruption in the Reconstruction South was not necessarily the product of the Radicals alone.

The regulatory period did not follow immediately the period of invitation. Although the earliest national manifestations of antirailroad sentiment were lost on the Southwest, which was bidding for more mileage, the hostility did spread to that region in time. Conflict within each state then developed between those areas with railroads and those without. Public aid and regulation were the controversial issues. Only after each state had achieved a relatively complete rail network, had become aware of its dependence on rail transportation, and had suffered severe economic dislocation, could it enact drastic legislation. This reaction in the Southwest attracted national attention because of its lateness and because of its extreme hostility, but the results possibly were less significant than they appeared at the time, coming as they did on the eve of a widespread acceptance of the principle of regulation. Returning prosperity blunted the attack, but later legislation, although less inimical in nature, was more thorough and comprehensive. It broadened to include all public utilities, and basically was not unlike that of the other states in the Union.

Migration of Ranch County Youth

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THIS REPORT TREATS only one aspect of a survey of a cross section of youth in a Southeastern Oklahoma county who attended high school, at least some of the time, between the fall of 1954 and the spring of 1958. The survey was made to learn something about the problems faced by high school youth in Southeastern Oklahoma, especially the problem of finding jobs after they quit school or graduate. The data were collected in July and August of 1959 from high school records and from interviews with school administrators, teachers, social workers, and others who were in a position to know the young persons who were subjects of the survey. Interviews were also obtained with some of the subjects themselves.

The present report is concerned with movement of youth away from their home county or from the region. A comparison will be made between some of the characteristics of the migrants, that is, those who left Ranch County, and the nonmigrants, those who were still living in the county in the summer of 1959.

The sample consisted of all those individuals in Ranch County who enrolled in the ninth grade in the fall of 1954, plus those who joined this class in the Ranch County schools after the fall of 1954. Some dropped out or left the county after a short time. Some transferred to the Ranch County schools from outside the county. All in all, there were 150 individuals in the sample—75 boys and 75 girls. Approximately 9 per cent were American Indians and 4 per cent were Negroes.

It has been known for some time that the rate of migration from Southeastern Oklahoma has been one of the highest in the nation. During the decade between 1940 and 1950, the state of Oklahoma achieved the dubious distinction of losing a larger percentage of its population than any other state. While the population of the United States gained 14.5 per cent during the decade, Oklahoma lost 4.4 of its 1940 population.[1] Within the state of Oklahoma, the heaviest losers were principally the southeastern

[1] U.S. Bureau of the Census, *Statistical Abstracts of the United States: 1958,* Table 9, p. 13.

counties, as Tarver has shown.[2] The net loss due to migration from the counties in State Economic Area 9—the southeastern corner of the state—ranged from 27.6 to 45.1 per cent. Ranch County lost 43.7 per cent of its 1940 population.

This tremendous migration of people from Southeastern Oklahoma was of course the result of many factors. A few of these factors were the shift from crops to livestock, the increase in the size of farms and ranches with the consequent decrease in the number of farms, the increased productivity of agricultural workers as more efficient farm machines were used, the gradual discontinuance of coal mining operations in the county, and, perhaps most important, the attraction of urban jobs during and following World War II.

Seventy-three per cent of the girls in the survey sample and 47 per cent of the boys had already left Ranch County; however, 15 of those boys were serving in the armed forces, and some of them will no doubt return to Ranch County to work and establish their homes. On the other hand, of the 27 per cent of the girls and 53 per cent of the boys who remained in the county, 22 were college students who spent most of their time outside the county and who will very probably leave home to seek employment after graduation from college. In comparing the characteristics of the migrants with those of the nonmigrants, the 15 migrants serving in the armed forces and the 22 nonmigrant college students were dropped from the sample. Also, the schedule of one boy who had died was not used. These deletions reduced the groups to 55 migrant girls to be compared with 16 nonmigrant girls and 20 migrant boys to be compared with 21 nonmigrant boys.

The first thing to note is the disproportionate number of girls who had left Ranch County—78 per cent in the reduced sample compared with 49 per cent of the boys. Thus, the sex ratio of the migrants was only 36, while the sex ratio of the nonmigrants was 131. Were the servicemen to return to Ranch County, the sex ratio would be even higher back home.

It is interesting to note that 67 per cent of the migrant girls were married compared with 56 per cent of the nonmigrant girls, while only 30 per cent of the migrant boys were married compared with 10 per cent of the nonmigrant boys. A future study might well investigate further the relationship between mobility and marriage.

Next, the marital status of the parents of these youngsters was examined. Twenty per cent of the migrant girls and 18 per cent of the nonmigrant girls came from broken homes. Among the boys the contrast was striking.

[2] James D. Tarver, *Population Changes and Migration in Oklahoma: 1940–1950* (Stillwater, Oklahoma State University, 1957) Bulletin B–485, pp. 26–27.

Twenty-five per cent of the migrants were from broken homes, while only 10 per cent of the nonmigránts were from such homes. In 1955 approximately 9.2 per cent of all families in the United States with children under 18 were broken.[3]

The factor of farm versus nonfarm residence was studied. Sixty-two per cent of the migrant girls came from homes which would have been classified as nonfarm in 1954, while only 50 per cent of the nonmigrant girls came from such homes, the remainder coming from farm homes. Among the boys, one half of the migrants came from nonfarm homes, while only one third of the nonmigrants did so. These findings are consistent with recent nation-wide surveys of migration, although the national trends seem to be exaggerated among Ranch County youth. During the years 1956–1957 and 1957–1958, the Census Bureau found that the mobility rate was higher for the rural nonfarm population than for rural farm people.[4] The Bureau also found that in age groups under 22 years girls had higher mobility rates than boys, while the rates for boys were higher in age groups over 22. From April, 1956, to April, 1957, 18.8 per cent of the females between 14 and 19 years of age moved to a different county or state. During the same period only 12.1 per cent of the males migrated.[5]

Table 1 shows the relationship between the migration of youth and their fathers' occupations. The outstanding fact shown by this table is that a disproportionate number of both girls and boys whose fathers' principal occupations were nonagricultural migrated, while a disproportionate number whose fathers were farmers or ranchers remained in Ranch County. McMillan, studying migration of open country families in four Oklahoma counties in 1937, concluded that sons of farm owners tended to be less migratory than sons of nonowners.[6]

It was found that 29 per cent of the migrant girls came from families in which the mother worked outside the home, while only 19 per cent of the nonmigrant girls did so. Among the boys, the percentages were 30 for migrants and 10 for nonmigrants.

Next, the relationship between migration and the jobs which the young people in the sample had been able to obtain was studied. Table 2 shows this relationship. Forty-nine per cent of the migrant girls and 25 per cent

[3] *Statistical Abstracts of the United States: 1956*, Table 48, p. 48.

[4] U. S. Bureau of the Census, *Mobility of the Population of the United States, April 1956 to April 1957*, Current Population Reports, Series P–20, No. 82, July 21, 1958; M. F. Baer, "America on the Move," *Personnel and Guidance Journal*, February, 1959, 37:408.

[5] *Ibid.*, pp. 2–3.

[6] Robert T. McMillan, *Migration and Status of Open Country Families in Oklahoma* (Stillwater, Oklahoma State University, 1943) Bulletin T–19, pp. 73–74.

TABLE 1

Relationship Between Migration from Ranch County and Fathers' Occupations

	MALES		FEMALES	
	Nonmigrants (N = 21)	*Migrants (N = 20)*	*Nonmigrants (N = 16)*	*Migrants (N = 55)*
Major Occupation Group	*Per cent*	*Per cent*	*Per cent*	*Per cent*
Professional and semiprofessional workers				3.6
Proprietors, managers, and officials (except farm)	4.8	5.0	6.3	3.6
Clerical, sales, and kindred workers		5.0		1.8
Craftsmen, foremen, and kindred workers	9.5	5.0		7.2
Farmers and farm managers	52.3	30.0	56.1	29.1
Protective service workers				1.8
Operatives and kindred workers	4.8	15.0		18.3
Farm laborers		5.0		1.8
Service workers (except domestic and protective)			6.3	3.6
Laborers	14.3	15.0	25.0	12.8
No occupation	9.5	15.0		1.8
Occupation not reported	4.8	5.0	6.3	14.6
	100.0	100.0	100.0	100.0

of the nonmigrant girls were classified as housewives. While 29 per cent of the migrant girls had clerical or sales positions, only 5 per cent of the nonmigrants had such jobs. Apparently the only jobs available for girls in Ranch County were a few openings for waitresses, beauty operators, private houseworkers, and an occasional clerical or sales position. Almost one fourth of the nonmigrant girls were reported to have no job of any kind.

Among the boys, the migrants held a rather wide variety of jobs, while back in Ranch County 46 per cent were classified as college students, 20 per cent as day laborers, and 13 per cent as farm laborers. There were few job opportunities for young men in Ranch County. A few joined their fathers on their own farms or ranches, a few others worked on farms or ranches for wages, and a few tried "roughnecking" in the oil fields. Many of the boys in the sample whose residence was still given as Ranch County apparently did not have steady work. Some had drifted around to other places for short periods of work or had followed the harvests of various kinds.

Finally, the relationship between migration of Ranch County youth and their performance in high school was examined. Table 3 shows the differences in the years of school completed by migrants and by nonmigrants.

TABLE 2

Relationship Between Migration from Ranch County and Jobs Held in 1959

	MALES		FEMALES	
	Nonmigrants (N = 39)	Migrants (N = 20)	Nonmigrants (N = 20)	Migrants (N = 55)
Major Occupation Group	Per cent	Per cent	Per cent	Per cent
College student	46.2	15.0	20.0	12.7
Clerical, sales, and kindred workers	2.6	15.0	5.0	29.1
Farmers and farm managers	7.7			
Operatives and kindred workers	5.1	30.0		
Housewives			25.0	49.1
Farm laborers	12.8	20.0		
Service workers (except domestic and protective)			20.0	7.3
Private household workers			10.0	1.8
Laborers	20.5	15.0		
No occupation	5.1	5.0	20.0	
	100.0	100.0	100.0	100.0

Among the girls, only 54 per cent of the migrants graduated from high school, while 65 per cent of the nonmigrants did so. Among the boys, 60 per cent of the migrants and 87 per cent of the nonmigrants finished high school. Twenty-four per cent of the migrant girls and 20 per cent of the nonmigrant girls completed at least one year of college. Among the boys, only 15 per cent of the migrants in contrast to 44 per cent of the nonmigrants completed at least one year of college.

During the past thirty years a number of studies have been made to learn whether or not migration from rural areas is selective with regard to

TABLE 3

Relationship Between Migration from Ranch County and Years of School Completed

	MALES		FEMALES	
Years of School Completed	Nonmigrants (N = 39)	Migrants (N = 20)	Nonmigrants (N = 20)	Migrants (N = 55)
	Per cent	Per cent	Per cent	Per cent
13	43.6	15.0	20.0	23.6
12	43.6	45.0	45.0	30.9
11		10.0	10.0	9.1
10	2.6	10.0	15.0	14.6
9	5.1	5.0	5.0	9.1
8	5.1	15.0	5.0	12.7
	100.0	100.0	100.0	100.0

intelligence.[7] Some of these studies found a positive correlation between measured intelligence or academic achievement and migration, while others have been less conclusive. One of the more recent investigations of this kind was the fine study made by Pihlblad and Gregory in 1952, in which they collected data on 4,000 subjects from 116 widely-scattered communities in Missouri. They found a positive correlation between scores

TABLE 4

Relationship Between Migration from Ranch County and Grades Earned in High School

	MALES		*FEMALES*	
Grades	*Nonmigrants (N = 21) Per cent*	*Migrants (N = 20) Per cent*	*Nonmigrants (N = 16) Per cent*	*Migrants (N = 55) Per cent*
Above average		20.0	25.0	45.5
Average	33.3	30.0	43.8	27.2
Below average	57.2	35.0	25.0	14.6
Insufficient record	9.5	15.0	6.2	12.7
	100.0	100.00	100.0	100.0

made on an intelligence test in 1940–1941 and distance of migration. There was also a positive correlation between I.Q. and the size of the places to which the subjects migrated.[8]

No intelligence tests had been given to the subjects of the Ranch County sample. However, the relationship between the ability to do high school work and migration was examined. Ability to do high school work was measured by average grades received in four required subjects: English, mathematics, American history, and science. Table 4 gives the results. The table seems to indicate that a disproportionate number of those who made "above average" grades in high school migrated, while a disproportionate number of those who made "below average" grades remained in the home county.

The Iowa Test of Educational Development was given at one high school

[7] For a brief summary of the findings of much of the research which has been focused on this question, see Paul H. Landis and Paul K. Hatt, *Population Problems*, 2nd ed. (New York, American Book Company, 1954) pp. 422–428.

[8] C. T. Pihlblad and Cecil L. Gregory, "Occupational Selection and Intelligence in Rural Communities and Small Towns in Missouri," *American Sociological Review*, February, 1956, 21:63–71. For other representative studies see Carroll D. Clark and Noel P. Gist, "Intelligence as a Factor in Occupational Choice," *American Sociological Review*, October, 1938, 3:683–694; Noel P. Gist, C. T. Pihlblad, and Cecil L. Gregory, "Selective Aspects of Rural Migration," *Rural Sociology*, March, 1941, 6:3–15.

in 1956. Since summary scores were available for only 26 migrants and 12 nonmigrants, not too much significance should be attached to the comparison. Thirty-five per cent of those who migrated ranked in the upper decile of the nation's youth in their performance on this test, while only 8 per cent of the nonmigrants ranked in the upper decile. On the other hand, 42 per cent of the migrants ranked in the lowest decile, while 67 per cent of the nonmigrants did so.

Finally, the destinations of those members of the sample who had left Ranch County were recorded. Thirteen per cent were living in adjoining counties, 19 per cent in Oklahoma City, 7 per cent in Tulsa, 17 per cent elsewhere in Oklahoma (mostly in the southern part), 23 per cent in Texas, 8 per cent in California, 4 per cent in Kansas, 4 per cent in New Mexico, and 5 per cent elsewhere in the United States or overseas.

Summary of Findings

The outstanding findings with regard to migration of Ranch County youth were the following:

1. The girls have left the county in greater numbers and at earlier ages than the boys.

2. This leaves an unfavorable sex ratio in Ranch County, from the point of view of the boys. The sex ratio of the nonmigrants was 131.

3. A considerably larger proportion of the girls than of the boys were married, both migrant and nonmigrant.

4. Comparing the migrant girls as a group with the nonmigrant, a larger percentage of the migrants came from nonfarm homes, a larger percentage were married, a much larger percentage came from homes with working mothers, a much larger percentage held clerical or sales positions, and a much higher percentage made "above average" grades in school.

5. Among the boys, a larger percentage of the migrants came from nonfarm homes, a much higher percentage were married, a much higher percentage came from broken homes and from homes with working mothers, a much higher percentage worked as operatives and clerks, while all of the boys with "above average" grades either migrated or attended college.

6. Of those who took the Iowa Test of Educational Development, a disproportionate number of those who migrated ranked in the top decile, while a disproportionate number of those who remained in Ranch County ranked in the lowest decile.